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ABSTRACT

To help school districts comply with Oregon's school bond laws, this manual provides guidelines for school district attorneys and personnel in the issuance and sale of school district bonds. The manual deals with the three primary types of Oregon school district borrowings: (1) general obligation bonds; (2) tax and revenue anticipation notes; and (3) lease-purchase financings including certificates of participation. Each of these types of borrowings is covered separately in the text. Also included in the manual is information regarding tax treatment of interest on the debt obligations, ratings and bond insurance, securities law concerns, and other topics. Consideration is given to the effects of Measure 5 on each type of school district borrowing. Finally, the manual includes a discussion of Oregon local budget law as it relates to debt issuance. Appendices include relevant statutes, lists of required documents, and some sample documents dealing with school distirct borrowings. (MLF)

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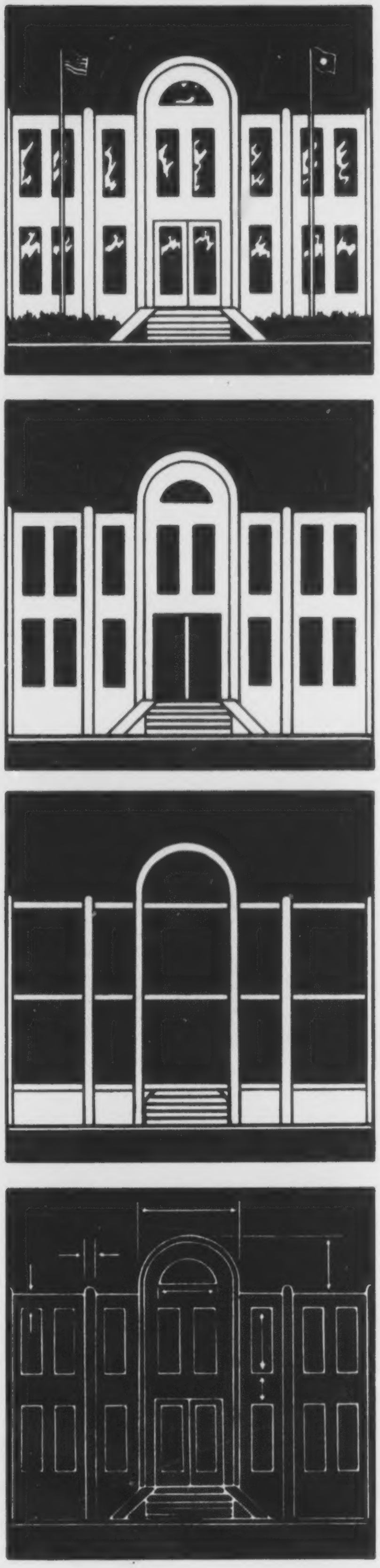

Oregon School Bond Manual

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State Superintendent of Public Instruction

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OREGON SCHOOL BOND MANUAL

Seventh Edition
Published November 1, 1991

C. Gregory McMurdo
Deputy Superintendent
Government Relations
Oregon Department of Education
Salem, Oregon

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FOREWORD

The *Oregon School Bond Manual* provides guidelines for school district personnel and attorneys in the issuance and sale of school district bonds. Purchasers of school bonds rely on the recommendations of accredited bond attorneys, who render opinions regarding the legality of bond issues offered for sale. This manual is designed to assist school districts in complying with state statutes regulating the issuance of school bonds, to assure that bond counsel opinions may be favorable.

The first edition of this manual was published in 1968 as successor to *Manual for Issuance of Bonds of School Districts of the State of Oregon,* published by the State Treasury Department. This 1991 edition includes applicable statutes enacted through the 1991 legislative session. The assistance of those who gave of their time and experience in preparing this publication, as well as previous editions, is greatly appreciated. **Phil Rice, Director of School Business Services, and Al Shannon, Coordinator of the Department's Office of School Business Services coordinated the preparation of this Seventh Edition.** For more information, call (503) 378-8142.

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DISCLAIMER

We have used our best efforts to provide the most accurate information and materials for your use and guidance in planning for and issuing school district debt. However, we make no warranty or representation as to the accuracy and completeness of such information and materials provided in this manual.

Nothing in this manual can substitute for the advice of a duly appointed school counsel or bond counsel on any procedure or transaction that involves the issuance or administration of school district debt. Only the advice of an attorney who is legally authorized to advise a school district offers legal protection against the personal liability of district officials who take action on financial matters of the district.

Oregon Department of Education
Ater Wynne Hewitt Dodson & Skerritt
Seattle-Northwest Securities Corporation

TABLE OF CONTENTS

Important Steps in Selling General Obligation Bonds ix
Important Steps in Selling Tax (and Revenue) Anticipation Notes xi
Important Steps in a Lease-Purchase or COP Financing xiii

SECTION I.

INTRODUCTION TO OREGON SCHOOL DISTRICT INDEBTEDNESS

A. Overview of Bonded Indebtedness 1
B. Members of the Financing Team and their Roles 3
C. Structuring Options 10

SECTION II.

GENERAL OBLIGATION BONDS, NOTES 15
A. Overview 15
B. Additional Responsibilities of the Financing Team 15
C. Specific Structuring Options 16
D. Specific Federal Tax Restrictions 18
E. Applicable Oregon Statutes and Administrative Rules 19
F. Election; Ballot Title 19
G. Method of Sale 21
H. Timing Considerations 22
I. General Obligation Bond Anticipation Notes (BANs) 22
J. Examples of Required Documentation 22
K. Questions and Answers 23

SECTION III.

LEASE-PURCHASE AND CERTIFICATES OF PARTICIPATION

A. Overview 27
B. Additional Responsibilities of the Financing Team and Additional Members 27
C. Specific Structuring Options; Payment Schedule 28
D. Specific Federal Tax Restrictions 29
E. Applicable Oregon Statutes 30
F. Method of Sale 30
G. Timing Considerations 30
H. Basic Documents: Lease-Purchase and COPs 30
I. Election 32
J. Examples of Required Documentation 32
K. Questions and Answers 32

SECTION IV.

TAX AND REVENUE ANTICIPATION NOTES

A. Overview 35
B. Additional Responsibilities of the Financing Team 35
C. Specific Structuring Options; Payment Schedule 36
D. Specific Federal Tax Restrictions 37
E. Applicable Oregon Statutes 37
F. Method of Sale 38
G. Timing Considerations 38
H. Examples of Required Documentation 38
I. Questions and Answers 38

SECTION V.

REFUNDINGS

A. Overview 41
B. Additional Responsibilities of the Financing Team and Additional Members 43
C. Structuring Options 43
D. Federal Tax Restrictions 44
E. Applicable Oregon Statutes and Administrative Rules 45
F. Method of Sale 45
G. Timing Considerations 45
H. Examples of Required Documentation 45
I. Questions and Answers 45

SECTION VI.

FEDERAL AND STATE TAX TREATMENT

A. How to Avoid Private Activity Bond Status 47
B. Arbitrage and Investment Restrictions 48
C. Bank Qualified Obligations 50
D. Registration 50
E. IRS Information Reports – Form 8038-G 50
F. Reimbursement Rules 50
G. Caution–Tax Rules Ever Changing 51

SECTION VII.

SECURITIES LAW (DISCLOSURE)

A. SEC and MSRB Regulation of Underwriters and School Districts 53
B. 1991 GFOA Disclosure *Guidelines* 54
C. Summary 55

SECTION VIII.

EFFECTS OF MEASURE 5

A. Measure 5 Generally 57
B. Exemptions from Property Tax Limitations 57
C. Definition of Capital Construction and Capital Improvement 58
D. Limited Tax Bonds 59
E. Conditions for Issuing Refunding General Obligation Bonds 59
F. Short-Term Borrowing 60
G. Authorization of Negotiated Sale or Competitive Bid 61
H. Judicial Review Procedures 62

SECTION IX.

RATINGS AND CREDIT ENHANCEMENTS

A. Ratings and Rating Agencies 65
B. What Determines a Rating 65
C. How is a Rating Assigned 66
D. Should a School District Apply for a Rating 67
E. Bond Insurance 67

SECTION X.

LOCAL BUDGET LAW

A. Capital Projects Fund 69
B. Debt Service Fund 69
C. Structuring Issues 70
D. Budgeting Principal and Interest 70
E. Appropriation 70
F. Failure to Budget Debt Service Requirement 70
G. Bond Sales and Debt Service 71
H. Budgeting for Advance Refunding Bonds 71

APPENDICES

Appendix A – Examples of Required Documentation; Definitions of Bond Ratings
Appendix B – Glossary of Terms
Appendix C – Applicable Oregon Revised Statutes
Appendix D – Applicable Oregon Administrative Rules

Index

IMPORTANT STEPS IN SELLING GENERAL OBLIGATION BONDS

1. Select and retain recognized Oregon bond counsel from the list provided by the Debt Management Division of the State Treasurer's office, in consultation with school district's general counsel.

2. Select and retain a financial advisor or investment banker to assist with the planning and authorization.

3. Determine role of citizen advisory committees early in the process.

4. Determine size of the issue:

    a. Allow for construction costs, including:

        1) Architect's fee;
        2) Land costs;
        3) County/city permits and fees;
        4) Furnishings and equipment; and
        5) Building construction costs.

    b. Allow for underwriting discount, if applicable.

    c. Allow for all bond issuance costs and fees including:

        1) Bond counsel;
        2) Financial advisor;
        3) School attorney;
        4) Disclosure document and bond printing costs;
        5) Registration and principal and interest paying costs; and
        6) Bond insurance premium, if applicable.

5. Adopt resolution authorizing the election and ballot title:

    a. Be sure bond counsel, the school attorney and the financial advisor review the resolution and ballot title before adoption.

    b. Designate whether issue is outside Measure 5's limits. Determine if debt to be incurred is for capital construction or capital improvements.

    c. Use language that provides flexibility indicating in general terms the:

1) Maximum life of the issue (e.g., not exceeding 30-year maturity);
2) Maximum par amount of issue (e.g., not exceeding $5,000,000); and
3) Purpose of the issue (flexible).

6. When estimating the dollar amount and tax levy, include an estimate for uncollected taxes and include a reserve adequate to cover debt service in the next fiscal year.

7. Be sure to budget for the bonds in a:

   a. **Capital Improvement Fund** to expend the bond proceeds on the projects and to collect the earnings on the investment of proceeds. If earnings are planned to offset the debt service levy, there must be a transfer from this fund to the Debt Service Fund. Be very conservative on any estimate of earnings. It is usually more advisable to use earnings to supplement contingency for construction, and after construction is completed use any surplus to offset debt service levies.

   b. **Debt Service Fund** to pay the principal and interest. Be sure to have a "carry-over" for the next fiscal year's first payment, since it will occur prior to the collection of taxes.

   FOR EXAMPLE: Bonds are dated October 1, 1991.

   Fiscal Year 1991-92 Budget must contain:

April 1, 1992	First interest payment.
October 1, 1992	Principal and second interest payment.

   (NOTE: October is in fiscal year 1992-93 but must be budgeted in 1991-92)

   Be sure that the first year budget levies enough taxes to meet the total payments AFTER uncollected taxes *at the worst possible level.*

IMPORTANT STEPS IN SELLING TAX (AND REVENUE) ANTICIPATION NOTES

1. Select and retain recognized Oregon bond counsel from the list provided by the Debt Management Division of the State Treasurer's office.

2. Select and retain an underwriter or bank to sell tax (and revenue) anticipation notes ("TANs") or ("TRANs").

3. Financial advisor or underwriter helps prepare cash flow projection showing maximum cash flow deficit plus next month's anticipated expenditures (See Appendix A).

4. Sizing, in addition to maximum cash flow deficits during fiscal year, plus expenditures in the months following the month in which the deficit occurs:

   a. Allow for underwriting discount, and

   b. Allow for all TANs issuance costs and fees including:

      1) Bond counsel;
      2) Financial advisor;
      3) School attorney;
      4) Disclosure document and TANs printing costs, if any;
      5) Registration and principal and interest paying costs; and
      6) Bond insurance premium, if applicable.

5. Adopt resolution authorizing the TANS:

   a. Be sure bond counsel, the school attorney and underwriter review the resolution before adoption.
   b. Use language that provides flexibility indicating in general terms the:

      1) Maximum effective rate of interest the notes shall bear (e.g., 7% – will vary depending on market conditions);
      2) Manner of sale (e.g., competitive or negotiated);
      3) Maximum underwriting discount, if any, (e.g., 1.5% – will vary depending on market condition);
      4) Terms and conditions by which the TANs, may be redeemed prior to maturity, if applicable (e.g., 6 month prepayment option);

5) Maturities of the TANs, which shall not extend beyond the end of the fiscal year in which the borrowing takes place (e.g., June 30 of current fiscal year);

6) Form and denominations of the TANs (e.g., registered form and in $5000 denominations); and

7) All other terms and conditions related to the sale of the TANs such as maximum principal amount (e.g., $5,000,000).

6. Be sure to budget for the TANs in a Debt Service Account used solely to pay the principal and interest on the TANs. Deposits to the account shall be according to a schedule which requires that not less than 100% of each distribution or payment of property taxes which is received by the district be placed in the account until sufficient amounts are on deposit to pay the TANs when due.

FOR EXAMPLE: TANs are dated July 1, 1991.

Fiscal Year 1991–92 Budget must contain:

June 30, 1992 Principal and interest payment.

IMPORTANT STEPS IN A LEASE–PURCHASE OR COP FINANCING

1. Select and retain recognized Oregon bond counsel from the list provided by the Debt Management Division of the State Treasurer's office.

2. Select and retain a financial advisor or investment banker to assist with the planning and authorization of a lease purchase and/or certificates of participation ("COPs") financing.

3. Sizing, in addition to construction and acquisition costs (including land, permits and fees, architect's fee, etc.):

    a. Allow for underwriting discount, if appropriate.

    b. Allow for all issuance costs and fees including:

        1) Bond counsel;
        2) Financial advisor;
        3) School attorney;
        4) Disclosure document and certificate printing costs;
        5) Escrow, if any, registration and principal and interest paying costs; and
        6) Bond insurance premium, if applicable.

4. Adopt resolution authorizing the lease–purchase agreement, escrow agreement and purchase agreement, if any:

    a. Be sure bond counsel, the school attorney and the financial advisor review the resolution before adoption.
    b. Use language that provides flexibility, indicating in general terms:

        1) Maximum term of lease–purchase agreement (e.g., not exceeding 15 years);
        2) Maximum amount of lease–purchase and COPs (e.g., not exceeding $5,000,000);
        3) Purpose of the issue (flexible but different statutes must be followed for real and personal property);
        4) Execution and delivery of lease–purchase and related agreement by the appointed official; and
        5) Maximum interest rate (e.g., not exceeding 10% – will vary depending on market).

    c. Delegate authority to appropriate district official.

5. When estimating the dollar amount, include an estimate for uncollected taxes and include a reserve adequate to cover debt service in the next fiscal year.

6. Be sure to budget for the lease-purchase agreement or COPs in a:

   a. **Capital Improvement Fund** to expend the COP proceeds on the capital projects and to collect the earnings on the investment of proceeds. If earnings are planned to offset the debt service requirements, there must be a transfer from this fund to the Lease Payment Account. Be very conservative on any estimate of earnings. It is usually more advisable to use earnings to supplement contingency for construction, and after construction is completed use any surplus to offset debt service levies.

   b. **Lease Payment Account** to pay the debt service requirement. Be sure to have a "carry-over" for the next fiscal year's first payment, since it will occur prior to the collection of taxes.

   FOR EXAMPLE: COPs are dated October 1, 1991.

   Fiscal Year 1991-92 Budget must contain:

April 1, 1992	First interest payment.
October 1, 1992	Principal and second interest payment.

   (NOTE: October is in fiscal year 1992-93 but must be budgeted in 1991-92)

SECTION I.

INTRODUCTION TO OREGON SCHOOL DISTRICT INDEBTEDNESS

A. Overview of Bonded Indebtedness:

School districts, like other municipal corporations, often need to finance capital improvements which are too expensive to be paid for from current operating budgets. Districts may also need to borrow money to make up for timing mismatches between the receipt of funds and required expenditures. In both cases, school districts may need to borrow money from financial institutions and individuals through the issuance of bonds and notes. This edition of the Oregon State Department of Education School Bond Manual is intended to assist school district boards and staff in accomplishing these borrowings in as efficient and cost-effective manner as possible.

This manual will deal with the three primary types of Oregon school district borrowings: general obligation bonds, tax and revenue anticipation notes and lease-purchase financings including certificates of participation. Each of these types of borrowings is covered separately in the text. Also included in the manual is information regarding tax treatment of interest on the debt obligations, ratings and bond insurance, securities law concerns and other topics. Consideration will be given to the effects of Measure 5 on each type of school district borrowing. Finally, the manual includes a discussion of Oregon local budget law as it relates to debt issuance. Appendices include relevant statutes (as of the date of this publication), lists of required documents and some sample documents dealing with school district borrowings. Detailed descriptions of each type of school district borrowing follow this introduction but brief descriptions of each may be useful to those looking for a general understanding of the various types of school district borrowings.

General Obligation Bonds.

General obligation bonds are approved by a district's voters and allow a district to borrow money which is to be repaid from an unlimited tax on all property subject to taxation within the district. Because of the unlimited nature of this tax, investors view general obligation bonds as the most secure of all debt instruments and are therefore willing to accept lower rates of interest than are usually available with other forms of long-term borrowings. General obligation bonds are typically used to finance the construction or acquisition of major capital items over a long period of time.

Tax (and Revenue) Anticipation Notes.

School districts may have a temporary mismatch between the receipt of operating funds, whether from the State of Oregon or the receipt of local property taxes, and their need to expend those funds for district operations. In these cases, both state and federal tax law allow districts to borrow on an interim basis. Such cash-flow borrowings are known as tax (and revenue) anticipation notes and are increasingly used by Oregon school districts as well as other local governments. Such note issues are commonly referred to as (TANs or TRANs) (tax (and revenue) anticipation notes) and are limited by state law to not more than 80% of a district's general fund resources in any particular year. The notes must be paid by the end of the fiscal year in which they are issued.

Lease-Purchase/COPs.

School districts may also borrow money for capital needs through lease-purchase or similar agreements. A lease-purchase agreement may be used to pay the costs of acquiring equipment, constructing buildings or for maintenance and renovation costs. Frequently, a district may divide a lease-purchase agreement into smaller units known as certificates of participation or "COPS." This is usually done because the smaller units are attractive to a broader range of investors. This will enable a district to obtain better interest rates than may be available through the sale of a lease-purchase agreement to a single investor. A district does not need the approval of its voters to enter into a lease-purchase agreement. Lease-purchase agreements and certificates of participation are payable from the district's general fund but, because no voter approval has been obtained, are not secured by the ability to levy additional property taxes to make the lease payments. This causes investors to view lease-purchase agreements and certificates of participation as less secure than general obligation bonds and means that a district will pay somewhat higher interest rates than would be the case with general obligation bonds. Nonetheless, this type of financing may be very useful to a district that needs to borrow relatively small amounts of money.

Tax-Exemption.

In using the materials in this manual, districts should be aware of the importance of meeting not only state law but also federal tax law requirements. A distinguishing feature of school district debt is that, if properly structured, the interest on that debt is not subject to federal income taxation or State of Oregon personal income taxation. It is this feature that enables school districts to borrow at lower rates of interest than are available to individuals or private businesses. This is particularly true in Oregon because of the existence of a relatively high state income tax which creates strong local investor demand for Oregon tax-exempt obligations. However, the federal tax law provisions dealing with this tax exemption are extremely complex and must be conformed to if the exemption is available. It is vitally important, therefore, that districts considering the issuance of debt consult with recognized bond counsel very early in the process.

The Financing Team Roles.

Although the role of bond counsel and other members of a district's financing team are discussed in this introduction and in the context of each type of financing, brief introductions may be useful. The roles and levels of participation of school board members, superintendents, business managers and other staff and school attorneys will vary from district to district. The respective roles of bond counsel, underwriters, financial advisors, paying agents and others may be less obvious but are critical to the successful completion of a debt financing.

> **Bond counsel** is a nationally recognized attorney or firm of attorneys that specializes in local government debt law. Bond counsel provides two primary services in completing a debt financing. First, bond counsel ensures that all state and federal tax law requirements are met. These have become increasingly detailed and complex over the last few years and specialized expertise is required to comply with them. Second, bond counsel will provide an opinion to the purchasers of a district's debt that the debt is valid and binding and that the interest on that debt is exempt from federal income taxation and Oregon personal income taxation. Investors will not purchase school district debt if such an opinion is not provided.
>
> An **underwriter** is a securities firm or a bank that purchases debt from a district and either holds that debt as an investment or resells the debt to investors. In the

latter case, an underwriter acts as a intermediary between a district and the investors in the public debt markets. An underwriter will be involved in the sale of a district's debt regardless of whether the debt is sold competitively or the sale is negotiated. Some underwriting firms also provide financial advisory services for competitive and negotiated sales while others may not.

Financial advisors are individuals or firms that have expertise in the issuance of local government debt. Financial advisors may offer only advising services or may be a division within a firm that also provides underwriting services. A district may wish to hire a financial advisor to give it advice on the structuring and issuance of debt.

A **paying agent** provides a number of services to a district that has issued debt. It will make principal and interest payments to the investors who have purchased the debt securities. It will, in its role as registrar, keep track of the owners of the district's debt and transfer ownership interests. It may also, if printed bonds are used, issue those bonds to the debt owners. While counties used to perform the paying agent function, the markets now demand that the paying agent is usually the corporate trust department of a major commercial bank.

This overview is intended as only a very brief description of some of the topics covered in the remainder of this manual. The manual should be consulted in detail in making a decision to issue debt and in deciding what type of debt is most appropriate for a particular district's financing needs. A district should also seek expert advice early in the financing process so that costly and time consuming errors can be avoided. Assistance can be obtained from the staff members of the Office of School Business Services at the State Department of Education as well as from qualified bond counsel, financial advisors and underwriters. Generally, bond counsel, underwriters and financial advisors are paid only if bonds are actually issued. Therefore, districts may retain those professionals without incurring large expenses.

B. Members of the Financing Team and their Roles:

The financing team generally includes the school board, the superintendent, the business manager, clerk or deputy clerk, the school attorney, bond counsel, the financial advisor, the underwriter and the bond registrar and paying agent (the "Financing Team"). We have listed the duties and responsibilities of each team member as they apply to financings in general and, under specific financing headings in this manual, have included additional duties and responsibilities as they relate to that type of financing. The descriptions are not intended to be all-inclusive and additional duties may arise during the process of completing a financing. There are often instances where tasks are shifted from one Financing Team member to another.

School Board.

The board must make the major policy decisions related to any financing. The key component of the policy decision is the resolution(s) that authorizes the financing and sets the general terms of the transaction. Whether the board is involved in a more detailed role or prefers to delegate the authority to authorized district officials is a matter of preference that will vary from district to district. Whether actively, or through delegation, the board:

- Prepares, or directs to be prepared, a long-term capital construction and improvement plan for the district;

- In consultation with members of the Financing Team, determines the district's funding needs;

- If ORS 328.205(2) applies to the school district, makes application to the School Standardization Section of the Oregon Department of Education for approval of any proposed bonded indebtedness; (See OAR 581-23-060, Appendix D)

- If the district is newly formed or consolidated, provides to bond counsel the written opinion of the school attorney approving the legality of the formation or consolidation of the district;

- Adopts a resolution (prepared by bond counsel) authorizing the issuance and sale of the bonds, including classification of indebtedness (subject to or not subject to Measure 5's limits); if the bonds are to be sold by competitive sealed bid, approves the notice of bond sale to be published as provided in ORS 287.024; if the bonds are sold by negotiation pursuant to ORS 287.028, authorizes execution of the bond purchase agreement submitted by the underwriter;

- Within 15 days after adoption of the authorizing resolution, causes notice of the authorizing resolution classifying the bonded indebtedness as "exempt" to be published; (The 60-day challenge period begins on the resolution adoption date.)

- If a competitive sealed bid sale, within four hours of the bid opening, act upon the bids received, either awarding the sale of the bonds to the successful bidder or taking other action; bond counsel will provide a form of resolution; and

- Within seven business days after the bond sale date/bond purchase agreement execution, causes signed copies of the final official statement to be delivered to the underwriter.

Superintendent.

As chief executive of the district, the superintendent is ultimately responsible for implementing the major policy decisions related to a financing. Depending on the size and administrative structure of the district, the superintendent may play an extensive or almost absent role in the details of the financing process. The superintendent directly or through delegation:

- Selects and retains bond counsel and a financial advisor from those specialists recommended by either the State Treasurer, the Oregon Department of Education, the school attorney, or the business manager and obtains board approval for those selected;

- Carries out the board's decisions and instructions;

- Works with the school attorney, bond counsel, the financial advisor, the underwriter and the business manager through the preliminary debt analysis and structuring, the election process, if required, and upon voter approval of general obligation debt, the authorization, sale, execution and delivery of the bonds;

- Provides the required disclosure information for the preliminary and final official statement to the financial advisor or underwriter;
- Considers and makes a decision regarding buying bond insurance for the bonds;
- If a rating is deemed desirable, provides all information required by the rating agencies, including making a presentation to the rating agencies in New York or San Francisco if required, and responding to all inquiries of the rating agencies during the life of the bonds;
- If a competitive bid sale, attends (or the business manager attends) the bid opening, reviews the bids received with bond counsel and the financial advisor, contacts the district board and recommends the action to be taken on the bids received (the board must take action within four hours);
- If a negotiated sale, approves pricing of bonds, and executes and delivers or appoints a designee to execute and deliver a bond purchase agreement to the underwriter;
- Provides to bond counsel all requested closing documentation;
- Executes the bonds by manual or facsimile signature;
- Attends the closing of the bond issue, executes the required closing documents and accepts receipt of the bond proceeds, or appoints a designee to do so.

Business Manager/Deputy Clerk.

In many districts, the business manager or deputy clerk is often the key district official in managing the details of the bond issue and acting as a liaison with the rest of the Financing Team.

- Works with the Financial Team through the preliminary debt analysis and structuring, the election process, if required, and upon voter approval, the authorization, sale, execution and delivery of the bonds;
- Selects, with approval of the board a registrar and paying agent for the bonds pursuant to ORS 288.570 to 288.590 (see Appendix C); ORS 328.240 (see Appendix C) provides that the county treasurer serve as paying agent for the district's bonds; however, the county treasurer may enter into agreements with financial institutions to serve as paying agent and registrar. It is required to have the registrar and paying agent be the same entity for all outstanding debt issues of a school district;
- Determines the structure of any proposed debt consistent with sound financial management and planning of the district, and determines the timeline for the financing and the acquisition and construction of the proposed project;

- Directs budgeting for debt service for the specific bonded indebtedness and obtains school board approval (See, Section VII, Local Budget Law);
- Provides to bond counsel specimen signatures of the authorized officials for printing on the bonds;
- Reviews and approves the bond certificate proof to bond counsel;
- Directs establishment of funds for the deposit of bond proceeds and directs the payment of debt service;
- Executes the bonds by manual or facsimile signature;
- Monitors expenses and directs payment of publication, printing, legal fees, and other bond issuance costs from bond proceeds;
- Directs the use and investment of all funds related to the bond issue in accordance with federal regulations, which includes calculating and paying rebates, if any, during the life of the bonds;
- Monitors the outstanding debt of the school district for possible debt service savings through refunding or early payoff.

School Attorney.

While bond counsel will provide the key financing documents and forms of resolutions, the district's local attorney often plays a vital role in ensuring that the district remains in compliance with local laws relating to meetings, filings and other official district actions related to the financing.

- Provides legal counsel to the board, the superintendent and the business manager, clerk or deputy clerk; however, does not act as bond counsel;
- With the assistance of bond counsel, monitors the bond election, if any, bond issuance and bond sale process;
- Monitors board meetings to insure compliance with public meeting laws and compliance with the school district's procedures;
- Provides disclosure information as requested to the financial advisor or underwriter for the preliminary and final official statement (Section VII, Securities Law (Disclosure));
- Works with the Financing Team toward a successful closing of the bond issue for the school district.

Bond Counsel.

Bond counsel is hired by the district specifically to ensure that the bonds are issued in compliance with applicable laws and procedures; however, bond counsel plays a role separate from that of the school attorney. Following are specific duties bond counsel performs, including:

- Assists the school district in determining which financing options will benefit the district as well as comply with the federal tax laws to ensure tax exemption;
- Assists the school district in preparing for a general obligation bond election and, with the assistance of the school attorney, monitors the election process;
- If an interim financing option is selected, prepares documentation for and directs any such financing (see, Section II, paragraph H, below);
- In consultation with the Financing Team drafts and provides a form of authorizing bond resolution for the district's consideration, approval and adoption;
- If a competitive sealed bid sale and upon adoption of the authorizing bond resolution, arranges for publication of the notice of bond sale;
- Provides to the financial advisor tax exemption language and bond counsel's form of legal opinion for, and reviews and comments on, portions of the preliminary and final official statement;
- Prior to a competitive bid sale, prepares and provides to the school board for adoption within four hours after the bid opening, a form of resolution accepting the successful bid;
- For a competitive bid sale, attends and directs the bid opening, held as published in the notice of bond sale; determines if the bids submitted conform to the rules and constraints of the notice of bond sale, and with the financial advisor, identifies the bidder offering the lowest interest cost to the school district in accordance with the notice of bond sale;
- Maintains contact with the purchaser of the bonds and the financial advisor regarding bond payment and bond delivery procedures;
- Arranges to have bonds printed or otherwise prepared in a manner satisfactory to the school district, the underwriter and the bond registrar;
- In the case of book–entry–only depository of the bonds, prepares a letter of representations for signature by the district and the bond registrar and addressed to The Depository Trust Company ("DTC") or other securities depository, and coordinates the delivery of the letter of representations and preliminary official statement to DTC's general counsel and underwriting department at least 10 days prior to closing;
- Prepares closing documents, including a non–litigation certificate, non–arbitrage certificate and the Internal Revenue Service information filing for execution by the authorized school district representative;
- Assembles and reviews the bond sale transcript documents to confirm and ensure the legality of the proceedings;
- Coordinates the delivery of the bonds and the receipt of the bond proceeds;
- Schedules and attends the bond closing with the Financing Team;

- Determines that bond registration requirements have been met;
- Issues bond counsel's approving legal opinion;
- Prepares and distributes transcripts of the proceedings to the Financing Team.

Financial Advisor.

Unlike other Financing Team members, the roles of financial advisor and underwriter are often interchangeable, depending on the type of sale the district chooses to utilize. The following description of financial advisor role assumes a competitive sale. In a negotiated sale, the staff of the underwriter may assume some or all of these advisory responsibilities. Specifically, the financial advisor:

- In consultation with the Financing Team, prepares recommendations on bond issue structure, timing and method of sale;
- Provides estimates of tax rate impacts of proposed debt structures for general obligation bonds;
- If a competitive bid sale, prepares the preliminary and final official statement in consultation with the Financing Team;
- If a preliminary official statement is prepared, delivers preliminary official statement to State Treasurer for approval; assures that the preliminary official statement is available to State Treasurer, bidders/bond purchaser and investors not later than 14 calendar days before the scheduled bond sale date, or if a negotiated sale, the date of signing the bond purchase agreement;
- Recommends and assists the district in evaluating the need for a rating and, if a rating is sought, develops a ratings strategy. Examines the feasibility of bond insurance;
- Develops bid specifications for use in the official notice of sale;
- With the assistance of bond counsel, advises the district on financial implications of arbitrage rebate rules;
- If requested and as necessary, assists the district in evaluating proposals from other service providers including but not limited to bond printers, paying agents, official statement printers and escrow agents;
- Evaluates bids for the bonds at the bid opening. Recommends acceptance of bid;
- Prepares and distributes the closing memorandum detailing timing and funds transfers at closing;
- Works with Financing Team to prepare necessary closing documents. Finalizes and arranges for delivery of final official statement;

24

- Assists in closing the transaction.

Underwriter.

The underwriter is an investment bank or a commercial bank that purchases the bonds from the district and then resells the bonds to investors in the bond market. The underwriter may purchase the bonds via bid at a competitive sale or through direct negotiation with the district. As noted above, in a negotiated sale, the underwriter may also perform some or all of the duties performed by a financial advisor.

- If a negotiated sale, structures and sizes the issue and confers with the Financing Team;
- If a negotiated sale, prepares the preliminary and final official statement in consultation with the Financing Team;
- Examines feasibility of obtaining a rating and bond insurance;
- If it is determined that a rating is appropriate and cost effective, contacts rating agencies on behalf of the district and assists the district in obtaining a rating on the bonds;
- Establishes a marketing program and based on pre-marketing of the issue and market conditions, schedules the offering and pricing;
- After pricing, finalizes the bond purchase agreement for execution and for approval and execution by the school board;
- In a competitive bid sale, responds to the published notice of bond sale and submits its sealed bid and good faith check to purchase the bonds from the school district;
- Provides to the school district, bond counsel and the financial advisor its reoffering prices of the bonds to the public (investors);
- In a competitive bid sale, provides any information required by the financial advisor for the final official statement;
- Provides bond delivery instructions to the bond registrar, with copies to the other members of the Financing Team;
- A representative of the underwriter attends the bond closing, arranges for transfer of funds and ensures that payment for the bonds, including accrued interest, if any, has been made and received, and executes a receipt for the bonds and other documentation required for the transcript of proceedings.

Registrar/Paying Agent.

The registrar/paying agent serves two roles: first, as registrar, keeps the official records relating to ownership of the bonds; second, as paying agent, mails interest checks to the registered owners on the payment dates and redeems principal on redemption dates. [This role used to be filled by the county treasurer but has changed with the registration requirements for municipal bonds.]

- Enters into a service contract with the school district to serve as registrar and paying agent for the bonds in compliance with OAR 170-61-010 (Appendix D) and ORS 288.570 to 288.590 (Appendix C);
- Reviews and approves a proof of the bond certificate to bond counsel;
- Accepts delivery of the bonds from the bond printer;
- Registers and authenticates (manually signs each piece, except for the pieces held for future exchanges and transfers) the bonds and delivers the bonds to the bond purchaser or its designee, according to the bond purchaser's delivery instructions, in time for closing; if the bond purchaser requires a "DTC Closing" (delivery of the bonds in New York), the bond registrar registers, authenticates, packages and air expresses the bonds to New York two days prior to the scheduled bond closing;
- Maintains the bond register--processes bond sales, transfers, exchanges, etc., recording such in the bond register; in the case of early call and redemption, gives notice of redemption to the bondowners as required by the authorizing bond resolution;
- Directs payment of bond principal, premium, if any, and interest to bondowners.

Oregon State Treasurer (Debt Management Division).

The Debt Management Division of the Oregon State Treasury serves as a clearinghouse for information. However, with the exception of approval of advance refundings, the Treasury does not approve or disapprove of any local debt issuance plans, nor does the Treasury take policy positions on local debt issuance.

- Monitors bond sale calendar for Oregon issues; provides general guidance and organizing information concerning the Oregon bond market;
- Provides to bond counsel its letter regarding the school district's compliance with applicable administrative rules;
- In the case of advance refundings (see Section V), reviews and approves preliminary and advance refunding plans submitted by the financial advisor or underwriter.

C. Structuring Options:

A school district has a substantial amount of leeway in structuring debt issues for the public debt markets. Given the complexity and constantly changing nature of debt investors' preferences, districts are urged to hold early consultations with their underwriters or financial advisors about market expectations and the likely repayment implications of the district's debt plans. Such early consultation will assist the district in developing the best possible debt management plan.

In general, a district has two primary goals in any given debt financing. The most important goal is to raise sufficient funds to meet the board's desired financing requirements. The second primary goal is to do so in the most cost effective manner possible. A district may wish to consider other goals such as maximizing community involvement in the sale process, but these are normally considered secondary to the primary goals. Given these two goals, the following pages discuss key considerations in achieving those goals.

Issue Sizing.

The most important consideration in sizing a debt issue is, the cost of the desired projects. (Scope of the projects, and thus debt issue size, is often constrained by political realties as well.) However, project costs are not the only financial variable in the equation. The district must also consider payment of issuance expenses and underwriting fees and, in many cases, evaluate the use of the earnings on the financing proceeds.

Issuance Costs.

The sale of debt in the public markets is a heavily regulated industry. Bringing a debt issue to market generally requires the use of a number of expert professionals who specialize in municipal bond transactions. Consequently, the issuance of debt comes with certain financing costs which must be considered in issue sizing. These costs generally include, but may not be limited to, fees of bond counsel, financial advisors, registrar/paying agents, escrow agents, bond and official statement printers, rating agencies and bond insurance companies and underwriting fees. Additionally, there may be travel expenses related to rating presentations and other miscellaneous expenses. It is impossible to generalize about these costs because they vary depending on the size, credit quality, term and complexity of the debt issue. Issuance costs (exclusive of underwriting fees) may range from as little as $10,000 for a very small issue, to well over $100,000 for very large transactions. Underwriting fees may vary from as little as 0.5% or less of the issue amount for a highly rated, short-term issue, to 2.0% or more for smaller, longer term, unrated issues. These expenses may be, and almost always are, paid for from debt proceeds.

In determining the proper size for a district's issue, a district should consult with its financial advisor or underwriter to determine the likely issuance and underwriting expenses. The issue can then be properly sized to pay for these expenses and still have sufficient moneys remaining to pay all capital construction or equipment purchase costs.

Project Fund Requirements.

The most important variable affecting debt issue size is the projected cost of the project. Normally, these estimates include a reasonable contingency amount to cover unexpected events. Additionally, the money in the project fund will earn interest until it is expended. In the case of a construction project, these interest earnings, even if subject to arbitrage rebate (see Section VI herein) usually are substantial. These additional earnings are considered "bond proceeds" just like the initial sale proceeds received from the underwriter at closing and must either be used for the project or must be used to pay debt service on the bonds. The project fund earnings cannot be used for any other purpose. Districts that find the affordability of a project difficult may wish to consider using the expected project fund earnings to lower their initial issue size. The district's underwriter or financial advisor can advise the district on how project fund earnings can be used to reduce the issue size, if desired.

Capitalized Interest.

Capitalized interest is simply borrowing enough additional principal so that a certain portion of the proceeds of a borrowing can be used to pay interest expense on the debt for a short period of time. While often used in revenue bond financings (where the project will generate revenues to repay the debt but will not be in service for several years), it is less common for school districts to capitalize interest. However, should the immediate affordability of the project be a concern, capitalizing interest can be an effective method of obtaining project funds immediately while allowing for growth in the resources available to repay the borrowing.

Issue Efficiency and Affordability.

The second major goal of any financing is to raise the money in an efficient and cost-effective way. There are several ways to measure the "cost effectiveness" of any financing. However, in general, a cost effective financing is one that best matches the issue size and repayment structure to the ability of the district's resources to meet that obligation. Once a district decides on which measure of affordability it considers most appropriate to its voters, the district can then determine how to structure the terms of the bond issue to best achieve its affordability goals.

Judging Financing "Costs".

There are several obvious ways of judging the "cost" of any financing. The simplest methods are simply the size of the issue and the total interest expense incurred. However, these methods can be extremely misleading if used in isolation because neither method reflects what resources are available over time to repay the cost of the project. A large issue size may well be affordable if spread over twenty years, while a much smaller issue size may not be affordable if only spread over five years.

Another way of measuring the issue's costs is to compare the true interest cost (TIC) of various alternatives. The TIC is an accurate measure of the all-in interest costs, weighted for time, of an issue's repayment schedule. However, just as above, looking at TIC alone does not guarantee the most "affordable" financing structure. Comparing the TIC of two structuring alternatives of the same maturity length will indicate which is the lowest cost alternative. But TIC does not take into account the timing and availability of repayment resources. The question of affordability then really must be translated into debt schedules that can be compared to the resources available for repayment.

Multiple Issues.

A district may wish to consider selling its authorized bonds in several issues. The possible advantages of breaking a large authorization into two or more separate issues are three fold: first, the district may qualify for an exemption from arbitrage rebate (see Section VI) or may qualify the issue as "bank qualified" (see Section VI); second, the district's projects may not be reasonably expected to be substantially completed within the three-year timeline that federal tax law demands; and third, the district may be facing an unfavorable bond market (high interest rates and high volatility) and may believe that the market may become more favorable at a later time; or a district may find that two smaller issues are likely to receive a better overall market reception than a single larger issue.

There are several disadvantages to dividing an issue into two or more separate issues. First, the district will have to go through the issuance process more than once and will incur issuance expenses twice or more, not once. Second, dividing an issue to qualify for rebate exemption or bank qualification almost always results in substantial loss of project fund earnings. The loss in project fund earnings is almost always greater than the realistic projection of possible arbitrage earnings. Third, market conditions can deteriorate as well as improve and a delayed sale can result in higher interest rates on subsequent issues than on the initial issue. Issuers considering multiple issues should ask their underwriters or financial advisors to thoroughly explain and estimate the advantages and disadvantages of such an approach.

Debt Repayment Schedules.

Depending on the nature of the repayment impact the district wishes to achieve, the district's underwriter or financial advisor can recommend appropriate issue structures to achieve the desired district affordability goals. Examples of various structures might be a level debt structure where debt service each year is approximately equal; or, a level levy rate structure when the debt repayment is designed to achieve a level tax rate every year; or a structure that specifically is tailored to an expected revenue stream. For example, a lower TIC repayment schedule may call for a bond payment in October while another schedule with a higher TIC may have a payment due in December. It may well be in the district's interest to delay payment to December so that property taxes have been received even though that repayment structure has a somewhat higher TIC. In addition, a district must decide on how long to borrow and whether to use current coupon bonds or a variety of deferred interest bonds. These various possible structures are discussed in more detail in Section IX. All of these decisions will interact with the affordability questions.

COMPARATIVE FEATURES OF FINANCINGS

Characteristic	General Obligation Bonds	BANs	TRANS	Lease Purchase & COPs	G.O. Refundings
Project to be Financed	Broad authority (See ORS 328.205)	Broad authority (See ORS 287.526)	Cash flow deficit	Broad authority (See ORS 332.155)	Outstanding Debt
Authorization	Approving vote of district voters for bonds and resolution of School Board	Prior approving vote of district voters for G.O. bonds and resolution of School Board	Resolution of School Board	Resolution of School Board	Resolution of School Board
Nature of debt service security	Unlimited property taxes outside Measure 5	Proceeds of long-term bonds	Budgeted property taxes and any available revenues of F4	Rental or installment payments	Unlimited property taxes
Lessor/Lessee required	No	No	No	Yes	No
Refundable	Yes	Yes	No	Yes	Yes
Escrow Agent	No	No	No	Yes	Yes
Possible Taxpayer challenge	Yes	Yes	No	Yes	Yes
Method of sale	Competitive or negotiated	Competitive or negotiated	Competitive or Negotiated	Competitive or negotiated	Competitive or Negotiated
Subject to Measure 5 limits?	No, if for capital construction and improvements	No, if G.O. bonds voter approved for capital construction and improvements	Yes	Yes	No

SECTION II.

GENERAL OBLIGATION BONDS, NOTES

A. Overview:

School districts are authorized to issue general obligation bonds and notes to finance capital construction and improvements. General obligation bonds and notes, approved by a district's voters, are secured by the full faith and credit of the school district. The school district unconditionally pledges to pay the principal of, and interest on, the bonds and notes from unlimited property taxes levied on all taxable property within the boundaries of the school district.

B. Additional Responsibilities of the Financing Team:

Issuing general obligation bonds requires several specific steps in addition to those detailed in Section I. Refer also to Section I.B. for other duties and responsibilities.

School Board.

- Considers and adopts a resolution (drafted by bond counsel in consultation with members of the Financing Team) calling for an election for approval of the specific bonded indebtedness;
- Delivers the notice of election to the election officer of the district; after the election and based on election data (abstract) from the election officer of the district, determines and declares the election results.

Business Manager, Clerk or Deputy Clerk.

- With the assistance of the school attorney and bond counsel, provides the election transcript to bond counsel for review and approval;
- Provides, among other things, an assessed valuation certificate and a district indebtedness certificate to bond counsel;

Bond Counsel.

- Drafts the resolution calling for an election and the notice of election stating the election date and the ballot title;
- Monitors the bond election, bond issuance and bond sale process to ensure compliance with state and federal laws and regulations; consults with the Financing Team through the preliminary debt analysis and structuring, the election process and upon voter approval, the authorization, sale, execution and delivery of the bonds;
- Assembles and reviews the election transcript (provided by school personnel) to confirm that the required election was called and held in conformity with the law;
- Upon voter approval of the issue, consults with the Financing Team regarding a sale date, the maturity schedule and any call provisions, etc.

for the bonds and drafts the resolution authorizing the issuance, sale and delivery of the bonds and if a competitive sealed bid sale, the notice of bond sale;

C. Specific Structuring Options:

In this section, several specific structuring options relating to general obligation bonds are discussed. The structure of a bond issue (i.e., the timing and manner of principal and interest payments) should coincide with the district's desired repayment plan. A general overview of sizing and structuring issues is included in Section I and should be read as a preface to this discussion.

Structuring Goals.

As discussed in Section I, the most important consideration in determining bond issue size and structure is balancing project requirements with affordability. Affordability can be measured in many ways. However, with general obligation bonds that are repaid primarily, if not entirely, from unlimited property taxes, affordability translates into the tax rate paid by the taxpayer. Taxpayers do not pay a specific interest rate; they pay dollars as expressed in a tax rate per $1000 of real market value. One measure of "affordability" then is the tax rate impacts of the bond issue over its life. The district must also, of course, consider its outstanding debt and any future debt plans.

Types of Bonds.

There are many different types of bonds. A bond is simply a formal written promise to repay a specified amount at a certain time with some stated rate of interest. The types of bonds that school districts in Oregon can offer is, however, limited to two basic types: current coupon bonds and zero coupon (or deferred interest) bonds.

Current Coupon Bonds.

Current coupon bonds are the bonds most often issued in the municipal market. Current coupon bonds are bonds that pay interest, at a fixed interest rate, every six months until they are redeemed or mature. The interest payment date is almost always, by market convention, the first day of the month. The very first interest payment date may or may not be exactly six months from the date of issue. It is not unusual for the first interest payment date to be as short as three months (a "short first coupon") or as long as twelve months (a "long first coupon"). Varying the first coupon period is often necessary to put a district on its preferred interest payment schedule regardless of the date the bonds are initially sold.

Current coupon bonds are almost always sold with serial maturities; that is, the total bond issue principal amount is split into pieces that mature each year (*serially*) over the life of the issue, rather than the entire principal amount coming due in a single year. Current coupon bonds are usually sold in minimum principal denomination sizes of $5,000. Because these bonds are the most common instrument in the municipal market, they usually carry slightly lower interest rates than other bond types.

A district's underwriter or financial advisor may recommend combining some of the serial maturities into one or more term bonds. Term bonds are simply a number of consecutively maturing current coupon bonds that are aggregated together and sold as one single nominal maturity. The term bond is subject to mandatory redemption according to the serial current coupon bonds that were aggregated to form the term bond. Term bonds carry a single rate of interest despite the mandatory redemption schedule.

Zero Coupon/Deferred Interest Bonds.

Zero coupon bonds (also called deferred interest bonds and capital appreciation bonds) are bonds that pay all interest and principal only at maturity – like a U.S. Savings Bond. An issuer of zeros can defer interest payments by using this kind of security. Investors in zeros purchase these types of bonds because the actual rate of return is locked in over the life of the bond. (With current coupon bonds, the periodic interest payments must be reinvested, exposing the investor to the risk that interest rates may have fallen since the bond was purchased.)

Zeros are often sold in conjunction with current coupon bonds or are sold to mature serially like current coupon bonds. Depending on market conditions, zeros can carry slightly higher interest rates than current coupon bonds. Zeros are sold in maturity amounts of $5,000; the original price is discounted to account for the interest component and is often much lower than the maturity amount.

Using zero coupon bonds effectively is very complicated and requires consultation with Financing Team members well in advance of submitting a bond election ballot title. Zeros can have a different impact on a district's debt limit calculation, require careful ballot title wording and a well-focused marketing plan by a district's underwriter.

Repayment Plans.

As noted in Section I, the optimal repayment plan is one that best matches the debt service to the district's ability to repay. In the case of general obligation bonds, the district itself does not repay the bonds, the district's taxpayers do. The question a district must answer then is "what is the repayment plan that best fits our taxpayer's abilities and inclinations?" Several repayment plans and their impact on tax rates are outlined below:

Level Debt Service.

In this plan, the new issue is structured to produce a debt service schedule that is relatively level each year. This is akin to the standard home mortgage. In the early years, debt service is primarily interest; in the later years debt service is primarily principal. A level debt service schedule has been the traditional method of structuring school district debt in Oregon. Level debt service produces the highest tax rate impacts in the early years (assuming growth in assessed value in the district over the life of the issue) and the lowest tax rates in the later years.

Level Principal.

In this plan, a level amount of principal is repaid each year. This results in declining total debt service each year because interest expense is reduced as principal is more rapidly repaid. A level principal repayment plan has not regularly been used in Oregon, probably because this plan produces very high tax rate impacts in the early years of the financing.

Level Levy Rate.

This repayment plan structures debt service so that the resulting tax levy rates will be more or less level each year. This structure accounts for estimated growth in assessed value and the corresponding increase in repayment resources. This structure, on average, defers principal repayment slightly to account for increasing assessed values. A level levy rate plan can significantly reduce the early year tax rates faced by the district's taxpayers. The lower tax rates produced by rising assessed values are captured early in the repayment plan rather than later as in the level debt service approach.

Accounting For Outstanding Obligations.

All of these approaches to repayment may be significantly affected by the amount and repayment terms of a district's currently outstanding debt. For example, a district with significant debt outstanding will notice the biggest difference in tax rates between the level debt and level levy approach. A district with no debt outstanding will notice less of a difference in the tax rate impacts. As noted in Section I, districts should always take into account the combined effect of new, outstanding and anticipated future debt when developing their new issue structure.

Maturity Schedules.

Most school district bonds are sold to mature over 15 or 20 year periods. Shorter or longer maturities are much less common. The best length depends on the affordability issue and the relative tax rates that a longer or shorter maturity will produce.

Redemption Provisions.

Bonds are normally sold with provisions that allow an issuer to prepay the bonds prior to their stated maturity date. In the municipal bond market, prepayment is referred to as "redeeming" or "calling" the bonds. Early redemption can allow the district to refinance the bonds and, for example, take advantage of lower interest rates (see Section V). While investors do not like early redemption provisions, the market does not penalize issues with early redemption provisions if those provisions conform to a reasonable market standard. The two variables in optional redemption provisions are the date on which the bonds may first be redeemed and the price at which the bonds may be redeemed. The market standard changes over time. Districts should consult with their underwriter or financial advisor to determine which redemption provisions are most appropriate for the district's issue.

Budgeting and Cash Flow Concerns.

As more fully discussed in Section X, districts must be careful to structure initial bond repayments on a schedule that allows for adequate collection of the initial year's tax levy. For example, a district selling bonds in the fall may not have any property taxes to make initial repayment until the following November or early December. Additionally, districts should beware the "levy spike" that is created by the first year levy's need to account for uncollected taxes. In the first years of a new bond property tax levy, a district will need to "gross up" the bond tax rate to account for current year uncollections. Because there are yet no prior year collections to offset the gross up, the tax rate in the early years can "spike" up higher than anticipated.

D. Specific Federal Tax Restrictions.

Please refer to Section VI for applicable provisions.

E. **Applicable Oregon Statutes and Administrative Rules**: (Refer to Appendices C and D).

Authority: Oregon Revised Statutes Section 328.205 provides bonding authority for school districts and provides the purposes for which bonded indebtedness may be incurred. ORS 328.245 and ORS 328.250 provide debt limitations. ORS 328.295 provides for bonds to be advertised for sale and sold in the manner prescribed in ORS 287.014 to 287.026. ORS 287.028 allows for negotiated bond sales or competitive bond sales (revised by House Bill 3048, 1991 Legislative Assembly). Oregon Administrative Rule 581-23-060 requires State Superintendent approval of bonded debt for nonstandard and conditionally standard school districts. See ORS 328.205(2).

Election: ORS 328.210 requires that an election be called for the purpose of submitting to the electors of the district the question of contracting bonded indebtedness under ORS 328.205. Refer to ORS Chapter 255 for election law. ORS 255.085 to 255.095 provides the method for holding an election. If an election is to be conducted by mail, refer to ORS 254.465 and OAR 165-07-010 to 165-07-080. Special election dates are provided in ORS 255.345.

Issuing Bonds: ORS 287.041 to 287.028 and ORS 288.515 to 288.590 provide the manner in which school districts shall issue bonds. ORS 288.570 to 288.580 provide for appointment of paying agents. OAR 170-61-000 provides notice requirements of intent to issue bonds. OAR 170-61-010 provides terms and conditions to be satisfied by registrars of bonds. Proposed OAR 170-61-020 defines requirements for the official statement and notice of call.

Issuing BANs: ORS 287.526 provides the authority and manner in which school districts may issue interim borrowings such as BANs.

F. **Election; Ballot Title**:

Refer to Oregon Revised Statutes, Chapter 255, for the procedures for placing a general obligation bond measure on the ballot and conducting the election.

The following dates are statutorily authorized election dates (ORS 255.345):

March -- fourth Tuesday
May -- third Tuesday
June -- last Tuesday
September -- third Tuesday
November -- first Tuesday after the first Monday

The notice of election (an exhibit to the resolution calling an election prepared by bond counsel for the school board's adoption) must be delivered by the school district to the election officer of the district on the date required by ORS 255.085. The notice of election called to approve the issuance of school district bonds shall include:

(i) The purpose for which the bonds are to be used;

(ii) The amount and the term of the bonds; and

(iii) The kind of bonds proposed to be issued.

The school district's election officer must prepare the ballot title with the assistance of the school district's attorney and bond counsel. ORS 255.085(1). The ballot title must meet precise standards and failure to consult with school district's attorney may result in an invalid ballot title and an invalid election.

The ballot title, in conformity with ORS 250.035, shall consist of:

(i) A caption of not more than 10 words which reasonably identifies the subject of the measure;

(ii) A question of not more than 20 words which plainly phrases the chief purpose of the measure so that an affirmative response to the question corresponds to an affirmative vote on the measure; and

(iii) A concise and impartial statement of not more than 85 words summarizing the measure and its major effect.

For any bond measure presented for voter approval, the debt service on which would be payable from taxes on property not subject to the limits of Measure 5, the ballot title shall also include a statement, following the ballot title question, as follows:

> Question: (question stated) If the bonds are approved, they will be payable from taxes on property or property ownership that are not subject to the limits of section 11b, Article XI of the Oregon Constitution.
>
> The words of the preceding statement are not counted for purposes of ORS 250.035.

The election officer shall cause the notice of election to be published once in a newspaper of general circulation in the district; also, a facsimile of the sample ballot shall be published in accordance with ORS 255.095. The election officer will prepare the official ballot for the bond election.

The election may be held by mail pursuant to ORS 254.465 to ORS 254.470 and OAR 165-07-010 to 165-07-080. The school board should consult with the election officer (county clerk) to determine the advantages or disadvantages to the school district in holding an election by mail.

As part of the bond issuance process, bond counsel will request from the district a transcript of the election process. Refer to the List of Documents for a General Obligation Bond Issuer, Election Phase, in Appendix A. This list itemizes the various documents and certificates the district will be required to provide to bond counsel.

Obtaining voter approval for general obligation bonded indebtedness can be difficult and requires convincing the voters that the proposed project to be financed is essential and that it is in their best interests to approve the debt financing. Private citizens who are proponents of the proposed project are the best "salespeople" and are the logical ones to spearhead an election campaign. Involving a citizen's advisory committee early in the planning process may be helpful.

Public meetings may be held and unbiased information materials describing the ballot measure and the project may be prepared and distributed; however, the use of public resources to gain public support of a ballot measure is prohibited under

Oregon law. For example, school personnel, copying machines and facilities may not be used in support of the ballot measure.

G. **Method of Sale**:

ORS Section 287.028 provides, "Notwithstanding any other provision of law, a municipality may negotiate the sale of its bonds or, may sell its bonds at public competitive bid sale...." First, we will discuss the process for selling bonds by public competitive sale and secondly, by negotiated sale. The school board must decide which method to use. The objective of the school district is to obtain the "best deal" for the district, and working with bond counsel and the financial advisor the district can ferret out the advantages and disadvantages of each method as they pertain to a specific financing.

Competitive Bid Sale.

General obligation bonds may be sold by public competitive sale. Bidding rules, constraints, the amount and handling of the good faith check to be submitted by each bidder with its bid, and the method for evaluating the bids received by the school district for the purchase of its bonds are contained in the notice of bond sale and are established by the school district in consultation with the financial advisor and bond counsel. The notice of bond sale (an exhibit to the authorizing bond resolution to be adopted by the school board) is to be prepared by bond counsel in accordance with ORS 287.022 and published according to ORS 287.024. The school district's handling of the bids received at the time and place noted in the notice of bond sale ("bid opening") is governed by ORS 287.026.

Bids are calculated by the traditional net interest cost (NIC) method or the true interest cost (TIC) method. NIC and TIC are defined in the Glossary, Appendix B hereto.

Bidders (banks, underwriters or syndicates of underwriters) formulate their bids based on the "saleability" of the school district's debt, the stability or instability of the bond market, and their "pool" of potential purchasers of the securities. The successful bidder will establish its reoffering prices to investors by considering comparable sales, what its "pool" is willing to pay, and the supply of bonds in the market waiting to be sold.

Negotiated Sale.

General obligation bonds may also be sold through negotiation with an underwriter. By negotiating the sale of an issue of bonds, the school district maintains control over which underwriting firm markets the bonds. One underwriting firm may be more qualified than another to market an issue with unique aspects, and the ability of the district to choose a qualified underwriter would be lost if a public sale were held. Issue size, credit rating, need for flexibility, costs of issuance, market conditions, all come into play when deciding whether to hold a public or private bond sale.

ORS 287.026 provides "when bonds are sold by negotiated sale, the issuer shall engage an expert advisor who shall deliver to the issuer a report evaluating the terms of the proposed negotiated sale, prior to the sale of the bonds." Having such a report gives additional comfort to the school district that it is getting the best deal and financing structure to fit its circumstances.

H. Timing Considerations:

In a competitive bid situation, the school district hopes to receive several bids in response to its notice of bond sale thereby increasing its chances of paying the lowest possible interest rate on its debt. To increase the odds of this happening, the bond sale should be set at a date and time when the bond market is most receptive to another issue.

The Financing Team should set the bond sale date in consultation with the Debt Management Division of the Oregon State Treasurer's office. It will advise if a proposed sale date and time is in conflict with other scheduled bond sales. It is desirable that a sale be held at a time when the market has not been saturated with other issues. Sales on Tuesday, Wednesday and Thursday are preferable. Sales scheduled for Mondays and Fridays and days bracketing a holiday and long weekends are discouraged. Also, the time of the day is significant. Bid openings from 9:00 a.m. to 11:00 a.m. are best. Keep in mind that the bid opening time and the school board meeting scheduled for the purpose of taking action on the bond sale must be coordinated. That action must be taken within four hours of the bid opening. GIVEN THE OPTIMUM TIME FOR BID OPENINGS, THE DISTRICT BOARD MUST USUALLY MEET IN SPECIAL SESSION TO ADOPT THE WINNING BID.

If the school district has negotiated the sale of the bonds with an underwriter, the district has gained flexibility in adapting to changing conditions. The underwriter will select the timing of an offering to coincide with a favorable market and receptive investors, in an attempt to get the best interest rate for the district.

I. General Obligation Bond Anticipation Notes (BANs):

General obligation bond anticipation notes (BANs) are authorized pursuant to ORS 287.526 and ORS 328.565 to obtain financing for a project for which the long-term general obligation bonds are authorized but not yet issued. They are secured by a pledge of the proceeds of the general obligation bonds to be issued. BANs may be issued serially to finance increments of a project and then taken out upon completion of the project at the time the long-term general obligation bonds are issued. BANs are a good financing tool in times of high interest rates. Obligating the district to short-term debt (BANs) at higher rates instead of long-term bonds at higher rates makes sense and allows for some flexibility prior to the completion of a project. The district's objective would be to issue long-term debt when interest rates are more favorable and then redeem the BANs.

If, after the voters approve a specific issue of bonds, it is determined to issue interim financing, the school board adopts an authorizing resolution. The notes may be sold by public or private sale.

In most other respects, the process for issuing BANs mirrors the procedures for issuing general obligation bonds.

J. Examples of Required Documentation: (See Appendix A):

(a) List of required documents for an issue of general obligation bonds.

(b) Rating report.

(c) List of required documents for an issue of BANs.

K. Questions and Answers:

Q. What is a general obligation bond?

A. A bond is simply a type of loan. An investor loans money to a municipality for specific capital projects. A bond normally carries a fixed rate of interest payable semiannually until the bond matures. A bond issue is usually comprised of differing maturities that come due over time so that all the principal does not come due on a single date.

In Oregon, a general obligation bond is a bond that is secured by the issuer's ability to levy unlimited property taxes not subject to the limits of Measure 5, on all taxable property within the jurisdiction to repay the bond's debt service.

Q. Does a school district need voter approval for general obligation bonds?

A. Yes. If a district wishes to secure a borrowing with an unlimited property tax pledge, the district must have voter approval to do so.

Q. What can general obligation bonds be used for?

A. If a general obligation bond is to be backed by unlimited property taxes, Measure 5 dictates that the proceeds be used for capital construction and improvements. The 1991 legislature defined these categories broadly to include not just buildings or renovations, but also land, equipment, furnishings and other items related to the capital construction or improvement project. Bond proceeds may also be used to pay the costs of issuance of the bonds.

Specifically, however, bond proceeds can only be used for purposes that are identified in the ballot title authorizing the issuance of the bonds. A school district whose ballot title specifically sought authorization to build and equip a new elementary school only, for example, could not then use some portion of bond proceeds to remodel a portion of a high school. Districts wishing to maintain flexibility in the use of bond proceeds should be careful not to restrict the ballot title language too severely.

Q. May a school district use general obligation bonds for operating purposes?

A. No. Bond proceeds may only be used as explained above. However, if a district received voter approval, a district may be able to pay certain major maintenance items or continuing capital items through bond issues and thus remove those maintenance items from the general fund.

A. What sorts of other expenditures can general obligation bonds not be used for?

Q. A district should specifically consult bond counsel about this question. However, in general, it is believed that general obligation proceeds may not be used for supplies, textbooks or computer software.

Q. Has Measure 5 affected the issuance of general obligation bonds?

A. Not really. While the legislative interpretation of allowable uses of general obligation bonds has not been court tested as of the date of this manual, the intent of the legislation interpreting Measure 5 was to allow the same uses of bond proceeds as was common prior to the passage of Measure 5.

Q. Are there legal restrictions on the size of bond issue a district can issue?

A. Yes. State law limits the amount of general obligation debt a school district may have outstanding at any time. The limit is based on the district's assessed value and the number and kinds of grades the district serves. Large districts are unlikely to be in danger of approaching their debt limits. However, very small districts may find that the cost of constructing new schools may push them very close to or over their debt limits and should be cautious about sizing the issue. The limits are as follows:

(a) For each grade from kindergarten through eighth grade for which the district operates schools, fifty-five one-hundredths of one percent of the real market value of the district; and

(b) For each grade from ninth through twelfth grades for which the district operates schools, seventy-five one-hundredths of one percent of the real market value of the district.

Practically, for districts operating K-12 schools, the debt limit is 7.95% of the district's real market value minus any outstanding debt.

Q. How long does it take to get money through a bond issue once bonded indebtedness is approved by the voters?

A. It depends. If the district is ready to proceed with the project relatively quickly, a bond issue can be structured, sold and closed within six to eight weeks. However, it is realistic to assume about three months from the passage of an authorization to receipt of money.

Q. What is "arbitrage"?

A. Arbitrage is, technically, "risk free" profit. For example, if you are able to simultaneously buy an item for $1 and sell it for $2, you have made "arbitrage" profits. In the bond market, arbitrage is possible because municipalities can borrow at tax-exempt interest rates that are lower than taxable reinvestment rates. Thus, for example, a school district might be able to borrow at 7 percent and simultaneously reinvest the proceeds in a Treasury security yielding 9 percent.

The U.S. Treasury strictly regulates the ability of state and local municipalities to earn and keep arbitrage profits. In fact, unless an issuer qualifies for specific exemptions, federal regulations prohibit either earning or keeping arbitrage profits from tax-exempt bond issues.

Q. How can the district make arbitrage and avoid rebate?

A. Federal tax law rules either prohibit the earning of arbitrage in the first place or require the rebate of any arbitrage earnings to the federal government. However, the rules provide for some exceptions. A district must qualify for an exemption from the these rules before it either may earn arbitrage or be allowed to keep any earnings. The exemptions are too detailed to explain here. Please refer to the section in the manual on federal tax law for a more detailed explanation.

Q. How much does it cost to issue bonds?

A. Issuing bonds will entail incurring a number of issuance expenses. The total expenses will vary according to the issue size, structure and credit quality. Issuance costs may be as little as $10,000 for small issues, and as high as $100,000 for large issues. In addition, the issuer will pay underwriting fees which may vary from 0.5 percent to 2.0 percent of the issue size.

Q. How does the district pay these issuance costs?

A. Issuance expenses can be paid from bond proceeds. When determining the size of the bond issue, the district should consult with Financing Team members to determine the likely issuance costs. These may be added to the bond authorization amount being requested from the district's electorate.

Q. How will unification affect the issuance and repayment of general obligation bonds?

A. Good question. As of the date of this manual, legal thinking seems to be that assets and liabilities of an elementary district that consolidates with a high school district will become the assets and liabilities of the new district, as a whole. However, this point of view is not court-tested. Obviously, the outcome of unification will have an important impact as taxpayers in affected districts.

SECTION III.

LEASE-PURCHASE AND CERTIFICATES OF PARTICIPATION

A. Overview:

Oregon school districts have the authority to enter into lease-purchase and similar financing agreements. Such agreements can be used to borrow money for a wide variety of capital items including equipment, modular buildings, construction of new facilities and major maintenance and renovation of existing facilities.

In many respects a lease-purchase agreement is very similar to a bond issue. Money is borrowed from an investor and lease payments are paid to that investor until the obligation is paid. Lease payments under such an agreement contain a principal component and an interest component. If the agreement is properly structured, the interest component will be exempt from federal and state income taxes, resulting in relatively low borrowing costs. In all these respects, a lease-purchase agreement is very similar to a bond.

There are significant differences, however. A general obligation bond is paid from taxes that are levied on property within the district. Lease-purchase debt service is paid from and secured solely by all available district funds. In practice this means that the district's general fund is the source of payment. There is no ability to levy additional property taxes to pay debt service on a lease-purchase agreement.

Another difference is that, unlike general obligation bonds, lease-purchase agreements do not require voter approval. Because the voters will have already approved the source of the funds to pay debt service on the lease-purchase agreement, voter approval is not required to approve the expenditure of those funds.

A further significant difference is that debt service on a lease-purchase agreement is not outside the Measure 5 limitations, as is the case with a property tax levy for repayment of general obligation bonds for capital construction and improvements.

A certificate of participation ("COP") is essentially a piece of a lease-purchase agreement. Because lower interest rates can usually be obtained by offering a large debt obligation to a number of investors, a lease-purchase agreement is divided into smaller pieces and sold to a number of investors. In this respect a COP is very similar to a bond. Pieces of a lease-purchase agreement may be called something other than a COP but are really the same type of instrument.

B. Additional Responsibilities of the Financing Team and Additional Members:

In general, the members of the Financing Team and their respective roles are very much the same as for a general obligation bond issue. Please see page 3 for a discussion of those roles. There is one additional role, however, that is usually required for a COP issue. This is the role of escrow agent.

Escrow Agent.

An escrow agent may perform several functions depending on the particular structure of a COP issue. As an example, a lease-purchase agreement may provide for remedial actions to be exercised on behalf of the COP owners if an issuer fails to make payments. If provided for, these remedies would be exercised by the escrow agent. As another example, although less common than in the past, the lease-purchase agreement underlying a COP issue may require that the issuer grant a mortgage or personal property security interest in the property financed. Usually, the escrow agent will be the grantee of any of these security interests. The escrow agent acts as a trustee in this situation on behalf of the COP owners.

C. Specific Structuring Options; Payment Schedule:

There are a number of factors that need to be examined before finalizing the structure of a lease-purchase type financing. In general, this discussion will focus on those factors relevant to COP issues because these financings are generally somewhat more complex than a non-COP lease-purchase financing.

Structuring Goals.

As is the case with any type of capital financing, the most important goal is to balance the need for project funds with the district's available resources. In the case of a COP or other lease-purchase financing, a district's available resources means its general fund. There is no legal ability to levy additional property taxes or obtain other funds to repay a COP; only the District's current and forecasted general fund resources are available.

Therefore, a district should as accurately and conservatively as possible forecast its available revenues for the period over which the COPs will be repaid. Once this forecast has been made, a district should size and structure its issue so that it is confident that resources will be sufficient to meet its debt service requirements.

Types of COPs.

In general, the types of COPs that school districts may sell are the same as for general obligation bonds. A COP is very much like a bond in that it is a formal written promise to repay a specified amount at a stated rate of interest. The types of COPs most often used by Oregon school districts are current coupon and zero coupon (deferred interest).

Current Coupon COPs.

Current coupon COPs are the type most often issued. They pay interest, at a fixed rate, every six months until they are prepaid or mature. The interest payment date is always the first of a month. The first interest payment date may or may not be exactly six months from the date the COPs are issued. It is not unusual for the first interest payment date to be as short as three months (a "short first coupon") or as long as twelve months (a "long first coupon").

Current coupon COPs are almost always sold as serial maturities; that is, the issue principal amount is split into pieces that mature each year (serially) over the life of the issue, rather than the entire principal amount coming due in a single year. Current coupon COPs are usually sold in minimum principal denomination sizes of $5,000. Because these types of COPs are the most common in the municipal debt market, they usually carry slightly lower interest rates than other types of COPs.

Zero Coupon/Deferred Interest COPs.

Zero coupon COPs (also called deferred interest or capital appreciation COPs) pay all interest and principal at maturity--like a United States Savings Bond. A district issuing zeros can defer interest payments by using this kind of security. Investors purchase zeros because the rate of return is locked in for the life of the COP (with current coupon COPs, the periodic interest payments must be reinvested, exposing the investor to the risk that interest rates will have declined).

Zeros are often sold in conjunction with current coupon COPs or are sold to mature serially like current coupon COPs. Depending on market conditions, zeros can carry slightly higher interest rates than current coupon COPs. Zeros are sold in maturity amounts of $5,000 or multiples thereof; the price at which they are sold to investors is discounted to account for the interest component payable at maturity and is often much lower than the maturity amount.

Repayment Plans.

As noted above, the best repayment plan is the one that best matches the district's ability to repay the COPs. Several more technical factors to consider are discussed below.

Level Debt Service.

In a level debt service plan, an issue of COPs is structured to produce a debt service schedule that is relatively level in each year. This structure is very similar to the repayment of a home mortgage. In the early years, debt service is primarily interest with small principal repayments. The opposite is true in later years. Level debt service is by far the most widely used repayment plan for COPs.

This general structure may be modified to take into account such factors as outstanding COPs or lease purchase obligations or expected changes in the level of general fund resources in subsequent years.

Deferral of Principal.

A district may wish to use a level debt service structure but delay repayment of principal for some period of years. This may be done for several reasons: new resources may become available or other borrowing or obligations may be repaid, freeing up additional funds. Deferral of principal is quite common but it should not be deferred for a long period of time. Investors in COPs and rating agencies are likely to be concerned if principal is deferred for more than two or three years. This concern can translate into higher interest rates and lower credit ratings for a district issuing COPs.

D. Specific Federal Tax Restrictions:

There are no practical differences between the federal tax treatment of lease-purchase obligations and other types of school district debt. Please refer to Section VI of this manual for a discussion of the applicable provisions.

E. Applicable Oregon Statutes:

The primary authority for school district lease-purchase agreements is contained in Oregon Revised Statutes 332.155. ORS 332.155(1) authorizes districts to enter into lease-purchase agreements for a period of not more than 30 years. Such agreements can be used to finance the costs of furnishing, equipping, repairing, purchasing and building structures and acquiring land.

The financing of equipment and personal property through lease-purchase agreements is authorized by ORS 332.155(4). A lease-purchase agreement authorized under this section is required to include a provision that the payments under the lease-purchase agreement have been established to reflect savings resulting from exemption from property taxation. In addition, this section requires that the agreement include a provision that the district may acquire the property upon payment of a nominal sum of money.

Other statutes relating to the issuance of bonds generally may affect lease-purchase agreements and COPs in certain circumstances such as advance refundings. These statutes are covered in other sections of this manual.

F. Method of Sale:

Lease-purchase agreements are generally purchased by a financial institution acting as lessor. COPs are sold to the public as is the case with general obligation bonds. Similarly, they may be sold by competitive bid sale or by negotiated sale with one or more underwriters. COPs are more likely to be sold by negotiated sale because the security for repayment is not as strong or as standardized as with general obligation bonds. This may require that the district and an underwriter undertake a more intensive marketing effort and may also require negotiation of terms up to the time of sale.

G. Timing Considerations:

Timing considerations are less important with COPs than general obligation bonds and TRANs. A district should consult with its financial advisor or underwriter to select the best time to sell its COPs. In general, a district should schedule its sale of COPs on a date where other issuers are not selling bonds or COPs. This will allow the issuing district to attract the most investor interest and the lowest interest rates.

A district must also pay close attention to budgeting the receipt of COP proceeds and expenditures for debt service. See Section X, for further discussion of the application of local budget law to COP issuers.

H. Basic Documents: Lease-Purchase and COPs:

There are two basic documents needed for a lease-purchase financing, plus a third if the use of COPs is contemplated. The first of these is a resolution or resolutions of the district board of education. A resolution in similar form will also be required for a COP issue. The resolution will generally authorize the terms of the lease-purchase agreement such as principal amount, maturity, prepayment provisions and the like. A resolution will also approve the selection of the lessor and may appoint the Financing Team members such as bond counsel and others. The resolution may deal with these items in detail or it may delegate the responsibility for setting terms such as the interest rate to the superintendent or business manager. In such cases, parameters such as maximum principal amount and interest rate may be set in the resolution with the actual amounts and rates to be set by the district staff in negotiation with the lessor.

The second basic document is the lease-purchase agreement itself. This document is generally entered into by the district as the lessee and the institution providing financing as the lessor. The lessor may also be a third-party financial institution, especially if the lease-purchase agreement is to be divided into COPs. It may also contemplate the issuance of COPs and the use of an escrow agreement. It will incorporate any terms established in the resolution and will provide the details of the property to be financed, payment schedules, security provisions, if any, and a host of other matters. The form of a lease-purchase agreement should always be subject to negotiation and a district should not execute such an agreement without it's being reviewed by bond (special) counsel and the district's attorney.

A third basic document is required for a COP financing. In addition to the basic resolution and the lease-purchase agreement, a COP issue will usually require the execution of an escrow agreement. The parties to this document are the district and the escrow agent. This is usually a separate document but may also be combined with the lease-purchase agreement. The escrow agreement is needed because the obligation of the district is divided into separate units (i.e., the certificates of participation) and documentation is needed to provide the terms of this division. An escrow agreement will provide the duties of the escrow agent, how payments are to be made to the COP owners, the actions that the escrow agent may take if the terms of the lease-purchase agreement or the escrow agreement are violated, and many other items.

Bond counsel (referred to as "special counsel" in a lease-purchase/COP financing) will draft the required documents.

Security Requirements.

Oregon school districts may enter into lease-purchase agreements (and issue COPs) for which the obligation to repay is binding and can be enforced in court. In effect, this makes a lease-purchase agreement or a COP an obligation payable from the district's general fund. Because of the binding nature of this obligation, a district will need to grant very minimal security for repayment. In almost all instances, the district's promise to repay the lease-purchase obligation from its general fund is more valuable to investors than a security interest in the school property financed. This means that a district should not have to grant such security interests in financed property to successfully sell a COP or lease-purchase agreement. Districts should note that this may be different for a lease-purchase agreement used to purchase property directly from its manufacturer, as is often the case with computer equipment.

Because of the credit strength of a district's binding obligation to pay debt service from its general fund, cash reserves are not usually necessary. Again, vendors of equipment may have different requirements for lease purchase acquisitions of that equipment.

A district's underwriter or financial advisor may advise the district on other appropriate security features. Stronger security features may be necessary in the event of changed legal or credit conditions. As an example, the passage of Measure 5 has caused a great deal of uncertainty about the adequacy and timing of school district funding. Until these uncertainties are resolved, districts may need to include additional security features to reassure investors. A separate account must be established in which a district will deposit annual debt service requirements as soon as it receives its tax turnover from the county treasurer.

I. **Election:**

Lease-purchase obligations and COPs do not require the approving vote of the district's voters. To the extent that tax moneys are used to pay debt service, such taxes have already been approved by voters whether in the form of an operating levy or a tax base. The actual expenditure of these tax moneys for debt service is not subject to voter approval.

J. **Examples of Required Documentation:** (See Appendix A)

(a) Listing of required documents for a lease-purchase/COPs financing.

K. **Questions and Answers:**

Q. What are Certificates of Participation?

A. Certificates of participation (also known as a COPs) are lease-purchase agreements that are divided into smaller pieces and sold in the public markets like a bond issue. Because a school district has authority to enter into lease-purchase agreements, it has authority to issue COPs. Pieces of a lease-purchase agreement may be called something other than a COP but are really the same instrument.

Q. What gives school districts the authority to enter into lease-purchase agreements and issue COPs?

A. School districts have this authority under the provisions of Sections 332.155(l) and 332.155(4) of the Oregon Revised Statutes. A copy of these statutory provisions is included at Appendix C of this booklet.

Q. Is voter approval needed to issue COPs?

A. Voter approval is not required for the issuance of COPs. Tax monies used to pay debt service have already been voted in the form of an operating levy or tax base. The actual expenditure of these tax monies for debt service does not have to be approved by voters.

Q. How do COPs differ from a bond issue?

A. In most respects they are very similar. The COPs are sold to investors at interest rates that reflect the exemption of that interest from federal and state income taxation. This results in low interest rates. Just like bonds, interest on COPs is paid semi-annually and principal annually.

There are two important differences, however. First, a district may not levy additional property taxes to pay debt services on a COP as it could do to pay debt service on a bond. Principal and interest on a COP must be paid from a district's existing general fund resources.

Second, a COP usually bears a higher interest rate than a bond. Because there is no ability to levy additional property taxes to pay debt service, investors do not treat COPs as being as safe as bonds. Therefore, they demand a higher interest rate to compensate. Usually the difference in interest rate between a COP and a bond is less than one-half percent.

Q. What can be financed through the issuance of COPs?

A. In general, the proceeds of a COP may be used for the same purposes as the proceeds of a bond issue. Therefore, a COP may be used to finance the acquisition and construction of new buildings or additions to buildings, the acquisition of land, equipment and supplies, and maintenance and renovation of existing buildings.

Q. Will the district have to give a mortgage or security interest in the property financed with the COP proceeds?

A. No. Investors do not usually believe that the property financed by a COP has value to them if a district defaults on debt service. Therefore, investors do not believe a mortgage or security interest on that security has value. Instead, investors rely on the binding nature of the underlying lease purchase agreement, the ability to sue and obtain monies from a district's general fund and the requirement that debt service be the first item paid when the district gets its tax turnover.

Q. How large a COP can a district issue?

There is no set answer. Each district must satisfy itself and the underwriter that it will have sufficient resources to pay debt service over the life of the COP issue. Once issued, debt service on a COP is a binding obligation and cannot be reduced. The district must be comfortable with its ability to pay.

The district must also be able to demonstrate to potential purchasers where it will get the monies to pay debt service. Will it cut other expenditures or will additional resources be obtained to provide monies to service the debt?

Q. How long does the district have to spend the proceeds of a COP?

A. Based on federal tax rules, all proceeds of a COP must be spent within three years of date of issuance.

Q. How long will it take to issue COPs?

A. It will take approximately six to eight weeks to issue the COPs once the district has made a decision to proceed.

Q. What is the maximum term of COPs?

The maximum term or maturity of the COPs is determined by the district's available resources and by the property being financed. Under Oregon Statutes, the term of the lease-purchase/COPs can be for a maximum of 30 years. However, typically, a COP has a maximum maturity of five to fifteen years, although some issues go as long as twenty years. The maturity of the COP issue should not exceed the useful life of the property financed.

SECTION IV.

TAX AND REVENUE ANTICIPATION NOTES

A. **Overview.**

School districts are authorized to issue short-term notes to meet current expenses in anticipation of the collection of taxes or other budgeted revenues. Such notes are referred to as Tax Anticipation Notes (TANs) or Tax and Revenue Anticipation Notes (TRANs) (collectively referred to as "TRANs"). Under Oregon law, the amount of TRANs issued cannot exceed 80 percent of the school district's budgeted basic school support, tax levies and other budgeted revenues. Voter approval is not required for TRANS issuance. School districts must repay their TRANs no later than the end of the fiscal year in which the notes are issued.

TRANs are typically issued to cure temporary cash flow deficits in the general fund (or in unrestricted funds legally available to meet current operating expenses). Oregon law provides that school districts "may contract indebtedness by issuance of warrants or short-term promissory notes for the purpose of meeting current expenses, retiring outstanding bonds or warrants, or paying the interest thereon, whenever provision for such borrowing has been made in duly adopted budgets as provided by ORS 294.443." ORS 287.442(1)

TRANs are payable from not less than 100 percent of the proceeds of the tax levy or other budgeted revenues whose collection is anticipated at the time the TRANs are issued, plus earnings. The school district must establish a repayment account into which property taxes, revenues and earnings will be deposited upon receipt until the repayment account holds sufficient funds to retire the TRANs. Monies in the repayment account may be invested as provided by law in investments which mature no later than the maturity date of the notes.

B. **Additional Responsibilities of the Financing Team:**

Issuance of TRANs requires several specific actions in addition to those associated with other debt issues. Refer also to Section I.B. for other duties and responsibilities.

School Board.

- Approves cash flow analysis; approves and adopts the budget; adopts the TRANs authorizing resolution.

Superintendent.

- Executes the TRANs by manual or facsimile signature, or designates the business manager to do so;

Business Manager.

- Prepares a cash flow analysis in consultation with the Financing Team;
- Directs the budgeting for debt service and establishes a repayment schedule;
- Directs the setting up of a special repayment fund and monitors deposits of tax and revenue receipts and the investment thereof;

- If designated to do so, executes the TRANs by manual or facsimile signature.

Bond Counsel.

- Reviews cash flow analysis.
- Drafts authorizing resolution for board's approval and adoption.

Financial Advisor/Underwriter.

- Assists the business manager in preparing the cash flow analysis.

C. Specific Structuring Options; Payment Schedule:

The amount of TRANs which a school district may issue is based on the maximum anticipated "cumulative cash flow deficit" during the time the TRANS are outstanding, as determined by the district, and may not be greater than the maximum cumulative cash flow deficit plus the next month's expenditures following such deficit. (This is a practical "may not". Federal tax law requires proceeds from a borrowing which exceeds this test must be restricted to an investment yield no greater than the interest rate on the TRANs. Obviously most districts choose to comply with the sizing rules in order to maximize reinvestment opportunities.) "Cumulative cash flow deficit" is defined as an amount equal to:

(1) the amount that the district will spend for expenditures ordinarily paid from the anticipated taxes and other revenues during the period of time from the date of issuance of the TRANs to receipt of the taxes or other revenues, plus

(2) the amount reasonably required by the district as a cash balance on hand which is equal to the amount of anticipated expenditures for a one-month period, minus

(3) the amount which the district will have available for the payment of such expenditures during the time period from the date of issuance to the receipt of taxes or other revenues. An amount is available if it can be used to pay expenditures without a legislative, judicial or contractual requirement that the amount be reimbursed to the account from which it was withdrawn.

The cumulative cash flow deficit is determined by running a cash flow analysis similar to the form included in Appendix A.

TRANs mature and are payable no later than the end of the fiscal year in which they are issued. Payment is made from the special repayment account established by the school district by resolution for the purpose of depositing tax and revenue receipts at the time they are received by the district, which repayment account qualifies as a bona fide debt service fund under the Code.

D. Specific Federal Tax Restrictions:

See Section VI, Federal and State Tax Treatment.

United States Treasury Regulations provide that if an issue of TRANs complies with the regulations (Treas. Reg. § 1.103-14(c)), all proceeds of the issue will be considered invested for a temporary period, and may be invested at a yield higher than the yield on the TRANs. However, two tests must be met:

Length of Obligation Test.

TRANs may not be outstanding the longer of (a) 13 months after the date on which the obligations are issued or (b) a period ending 60 days (but not more than 24 months from the issuance date) after the last date for payment of the anticipated taxes or other revenues without interest or penalty accruing. Oregon school district TRANs would meet this test since the notes must mature no later than the end of the fiscal year in which they are issued.

Size of Obligation Test.

TRANs may not be issued in an amount greater than the maximum anticipated "cumulative cash flow deficit" to be financed by the TRANs for the period for which taxes and revenues are anticipated and during which the TRANs are outstanding, plus the next month's projected expenditures.

Any allowable arbitrage earnings, however, are subject to rebate unless the district qualifies for one of the following exemptions:

Safe Harbor Exemption.

TRANs may be issued under the safe harbor exception of the Code, in which case the actual maximum cumulative cash deficit must equal or exceed 90 percent of the issue size, and the maximum deficit must occur within six months of the issue date. However, should the actual maximum cumulative cash deficit turn out to be less than 90 percent of the issue size (cash receipts are higher or expenditures are lower than calculated) all earnings on the TRANs proceeds above the borrowing yield would be subject to rebate.

Small Issuer Exemption.

If a district issues a total of $5,000,000 or less of tax-exempt obligations (of any kind including bonds, notes, leases, etc.) during the calendar year, then those issues are exempt from rebate requirements.

Registration.

Since Oregon school district TRANs mature in 12 months or less, no registration of the TRANs is required and the TRANs may be issued in bearer form.

E. Applicable Oregon Statutes:

Authority and Manner of Issuance. TRANs are authorized and issued pursuant to Oregon Revised Statutes 287.435 to 287.442 (see Appendix C).

F. **Method of Sale**:

TRANs may be sold either publicly or privately; however, a negotiated sale may be most advantageous to a district since an issue of TRANs can be authorized, sold, executed and delivered shortly after the cash flow analysis has been completed and the budget has been adopted without waiting out the time required for publishing a notice of sale and accepting bids. While some districts solicit informal "bids" from underwriters, the sales are actually negotiated sales.

G. **Timing Considerations**:

The preparation of the school district's budget and the cash flow analysis provide the information required for determining if the school district is eligible to issue TRANs and if so, the amount to be issued. If eligible, the Financing Team can quickly proceed with the authorization and sale of the TRANs. It is in the district's best interest to have access to TRANS proceeds as quickly as possible after the adoption of the budget. A district may sell its TRANs prior to July 1; however, the closing cannot take place until the start of the new fiscal year.

H. **Examples of Required Documentation:** (See Appendix A)

(a) List of documents required for an issue of TRANs.

(b) Sample projected cash flow summary.

I. **Questions and Answers**:

Q. What is a TAN or a TRAN?

A. A Tax and Revenue Anticipation Note (TAN or TRAN) is a short term borrowing to fund projected cash flow shortfalls in a fiscal year due to timing considerations. Since most districts do not receive the bulk of revenues from property taxes or the state on a schedule that matches its expenditure requirements, the district must borrow to meet its immediate needs. For most districts, TRANs are simply a cost effective way to accomplish the borrowing.

Q. Why are TRANs such a low cost form of borrowing?

A. Federal law allows school districts to borrow at tax–exempt rates of interest and, as long as they follow federal rules on sizing (see below), to invest the proceeds in higher rate taxable securities. Thus, districts are allowed to "arbitrage" the proceeds. Of course, the districts must expend a portion of the proceeds for the cash flow deficit, but generally, over the life of the borrowing, the arbitrage proceeds offset the interest costs of borrowing. Some districts can even legally "make" money on the borrowing. Others, who must rebate the arbitrage back to the federal government, still end up with a virtually costless borrowing.

Q. Do TRANs always pay for themselves?

A. Some do and some do not. It depends on whether the issue is exempt from rebate and whether the interest rates available on investments are high enough over the course of the fiscal year to offset the interest and borrowing costs of the TRANs.

Q. How much may a district borrow?

A. Under state law, a district may borrow up to 80 percent of its budgeted resources. However, most districts restrict their borrowing size to fit under federal arbitrage rebate rules. These rules limit the borrowing size to the maximum cumulative projected cash flow deficit plus the next month's anticipated expenditures. If a district wishes to invest the proceeds at a rate higher than the rate on the TRANs, the district must limit the borrowing size to the federal rules.

Q. What happens if a district borrows more than the federal rules allow for arbitrage?

A. It is not illegal to borrow more than the federal rules. However, if a district does, then the district must restrict the yield on the investment of TRANs proceeds to the yield on the TRANs. For example, if the arbitrage yield limit on a district's borrowing was 5.50 percent, then the district may not even invest TRANs proceeds at a yield higher than 5.50 percent. The proceeds of the borrowing would be "yield restricted".

Q. When should a district borrow? When should a district repay?

A. State law does not permit a TRAN to extend beyond one fiscal year. The earliest a district may close a TRAN is July 1. Most districts borrow as early in the fiscal year as possible in order to maximize the interest earnings on the TRANs proceeds prior to expenditure. Most districts extend the TRAN borrowing to June 30 in order to maximize the interest earnings on investments once the major tax and revenue turnover has occurred.

Districts wishing to close (i.e. fund) a TRAN in early July will want to actually price the TRAN in early or mid-June. That means the district will need to begin the process in mid or late May, depending on the size and complexity of the issue.

Q. For what purpose does a district use the "projected" cash flow and when does a district use its actual cash flow?

A. The "projected" cash flow is used to determine the maximum allowable size of the TRAN borrowing for federal tax purposes (i.e., maximum size = projected maximum deficit plus next month's projected expenditures). The actual cash flows experienced by a district during the year are used to determine if a district must rebate any arbitrage earnings from the borrowing to the federal government. Therefore, if a district deliberately sized its TRAN to meet the "safe harbor" rebate exemption, believing it would actually do so, but fails to actually do so, then the issue would be subject to rebate of any arbitrage earnings.

SECTION V.

REFUNDINGS

A. Overview:

Refundings are transactions that refinance, or "refund", an outstanding debt issue. In a refunding, a new debt issue is sold and the proceeds are used to pay all of the debt service of the issue being refunded. With the refunded issue's debt service now being paid by proceeds of the new issue, the issuer only pays the new debt service on the refunding debt issue. An issue can even be refinanced before it is callable by using the technique known as "advance refunding" (see "Types of Refundings" below).

Issuance of general obligation refunding debt does not require voter approval under Measure 5 if the refunding produces debt service savings.

Refundings are subject to very specific and technical Internal Revenue Service regulations that materially impact the structure and timing of refunding transactions. Additionally, State law regulates refundings in certain ways beyond the normal regulations of "new money" debt issues. This brief overview of refundings is not designed to reflect all of the complexity and regulations involved in a refunding transaction. Issuers contemplating refundings are strongly encouraged to seek the advice of bond counsel and underwriters or financial advisors very early in the process.

The "math" of refundings works the same for general obligation refunding bonds and refunding lease-purchase agreements or COPs. There are, however, some differences in the legal requirements between refunding COPs and refunding general obligation bonds. These differences are discussed later in this section.

Issuers typically refund issues for one (or more) of three reasons:

1. Debt service savings;
2. Debt restructuring;
3. Change in legal status of debt covenants.

Each of these is discussed more fully below.

Debt Service Savings. The most common reason for refunding an outstanding issue is to take advantage of lower interest rates. Just as with a home mortgage, if interest rates have declined substantially after the issuance of a debt issue, an issuer may be able to refund the old issue with a new issue and achieve substantial debt service savings, even after paying all costs associated with the new issue. In the case of a general obligation bond, the debt service savings are returned to the district's taxpayers in the form of lower tax rates. In the case of a COP or lease, the debt service savings become an additional resource to the district.

Savings are usually measured by their "present value", i.e., the total savings over the life of the refunding discounted to their value in today's dollars. In the case of an advance refunding (see below), the State Treasurer requires that "present value" savings from a refunding must be at least 3% of the new issue principal.

Debt Restructuring. Refunding an issue allows a district to restructure its outstanding debt. The old debt will now be paid by proceeds of the new issue. The district can structure its new debt in a form better suited to the district's needs. For example, a district may wish to consolidate several debt issues into a single new issue and restructure the debt in a way to produce a different tax rate impact. Or, a district may wish to restructure a lease to reflect better cash flow matching with the changing cash resources of the district.

Changing Legal Covenants.

Once an issue has been "refunded" it may be possible to have any legal restrictions relating to the issue voided. This is called "legal defeasance" and allows the issuer to remove restrictive legal covenants. While unlikely to be a concern with general obligation bonds, legal restrictions may well be a concern with leases. For example, a district may have pledged a security interest in certain property or equipment leased and may wish to void that pledge of security. A new lease may be sold (with more favorable legal covenants) to refund and "defease" the old lease, thus releasing the district from the old more restrictive covenants of the old issue.

A refunding may be undertaken to accomplish any one or a combination of these three advantages. However, in the case of general obligation bonds, refundings are almost always undertaken to produce debt service savings.

Types of Refundings.

There are two types of refundings: "current refundings" and "advance refundings". Which type an issuer must use depends on the timing of the transaction compared to the first available date on which the old debt may be called, or redeemed. The State of Oregon and the Internal Revenue Service currently have different definitions of what is a "current" and what is an "advance" refunding.

Current Refundings.

Under state law, a current refunding is one in which the new refunding bond transaction is closed within one year of the next available call date of the debt to be refunded. Current refundings are not subject to any regulations other than those that apply to other general obligation bonds or leases/COPs. In a current refunding, the new debt proceeds are held (sometimes in an escrow) to make one payment, i.e. the payment required to call and retire all of the old debt and pay any accrued interest costs on the next interest payment date. Under federal law, current refundings are bonds which refund another bond if it is issued within 90 days of the redemption of the refunded bond.

Advance Refundings.

Under state law, an advance refunding is one in which the new refunding bond transaction is closed more than one year before the first available call date of the debt being refunded. In an advance refunding, an escrow is required. The escrow agent must make all interest and principal payments on the old debt until the first available call date of the old debt. Advance refundings of debt must be approved by the State Treasurer's office and are subject to certain requirements as part of that approval process. Under federal law, advance refundings are bonds which advance refund another bond if it is issued more than 90 days before the redemption of the refunded bond. School districts should note that bonds originally issued after December 31, 1985 cannot be advance refunded more than once.

Other issues concerning escrows and structure are discussed below.

B. Additional Responsibilities of the Financing Team and Additional Members:

Refundings are somewhat more complex transactions than selling debt for a construction project or equipment purchase. Refundings require careful mathematical calculations to ensure that the refunding issue is sufficient in size to provide for the correct escrow deposit and to pay issue costs. Additionally, as noted below in "Structuring Options", refundings have numerous complex structuring options that require careful analysis. This additional complexity means that three additional players are required for the Financing Team and others take on new responsibilities. Please refer to Section I for other roles and responsibilities.

Escrow Agent.

The escrow agent receives the proceeds of the refunding debt sale and holds the proceeds in an irrevocable escrow designed to pay the debt service on the refunded debt. The proceeds are normally invested in some form of U.S. Government Treasury securities that come due in an amount and at a time that pay all interest and principal payments on the refunded debt until its first available redemption date, then provides sufficient funds to redeem all the outstanding debt. The escrow agent is the corporate trust department of a commercial bank or a trust company. Issuers often use the same trust department that is serving as the issuer's registrar/paying agent.

Escrow Verification Agent.

The escrow verification agent reviews the refunding transaction for mathematical accuracy and sufficiency of the escrow to make the payments on the debt being refunded. Escrow verification agent services are provided by certain accounting firms that maintain specialized expertise in such transactions.

Debt Management Division, Oregon State Treasury.

The Treasury monitors and must approve of all **advance** refundings. The Treasury reviews the preliminary and final advance refunding plans as submitted by the underwriter or financial advisor to ensure compliance with State statutes and administrative rules. The Treasury charges a fee for this review.

Underwriter or Financial Advisor.

The financial consultants assisting the district with an **advance** refunding will prepare and submit to the Treasury a "preliminary" and a "final" advance refunding plan. The plan will detail the debt issue(s) to be refunded, the purpose of the refunding and otherwise demonstrate compliance with State law and rules. Plans are not required for a current refunding.

School Board.

The board must additionally authorize the submission of a preliminary advance refunding plan to the Treasury. This may be accomplished in the resolution that also authorizes the issuance of the refunding bonds, or may be done with a separate resolution, depending on the preference of the district.

C. Structuring Options:

The structure of a refunding debt issue depends on the reason the transaction is being undertaken. For example, a refunding of a COP designed to better match the payment schedule to a district's available resources would be structured to produce a debt service pattern that best matched those resources. A refunding designed to produce debt service savings can be designed to produce all of the savings in the early years of the issue, in the later years, or uniformly over the issue's life. Most often in a general obligation bond refunding, the savings are taken uniformly over the life of the issue.

Current refundings of general obligation bonds and COPs may be used, under certain conditions, to lengthen the repayment term as well. Advance refundings of general obligation bonds may not be used to lengthen the repayment term. While lengthening the repayment term may achieve certain objectives of a district (for example, lowering the annual debt service cost), it also will increase the overall interest expense born by a district's taxpayers. The advantages and disadvantages of lengthening the repayment term should be carefully explored before a district structures a refunding issue to lengthen the term.

In the case of a refunding for debt service savings, an issuer may wish to only refund a portion of the outstanding bond issue rather than the entire outstanding amount. This is because the savings achievable with a refunding only come from the portion of the outstanding debt that is callable. Once bonds are called then the issuer no longer has to pay the higher interest costs on those bonds. While an escrow can be designed to pay the interest costs on outstanding bonds that are not callable, there are no savings attributable to those bonds because the issuer is still paying the original interest costs on those bonds.

The Refunding Escrow.

The refunding escrow is simply a way of ensuring that the debt being refunded will be repaid. Proceeds of the new issue are deposited in the refunding escrow in the form of U.S. Government Treasury securities that come due in an amount and at a time such that the debt being refunded is assured of being repaid.

Structuring a refunding escrow, particularly for an advance refunding, is a complicated mathematical problem. Underwriters or financial advisors who maintain a specific expertise in such structuring should be consulted early in the financing process. The refunding escrow is usually subject to federal tax law yield restrictions which may require the use of special Treasury securities in the escrow. With these securities (called State and Local Government Securities, or SLGS) a subscriber may legally designate a specific yield (lower than current market yields) on the security, up to a limit, such that the escrow yield does not exceed the allowable limits imposed by Federal Treasury regulations. Structuring these escrows is usually done with specialized computer software.

As noted above, in an advance refunding, the escrow design will be verified by a CPA firm acting as escrow verification agent.

D. Federal Tax Restrictions:

The federal tax regulations on advance refundings are extremely complex. The rules on current refunding are much less rigorous. School districts should consult with bond counsel in the planning process to determine the applicable tax law restrictions.

E. Applicable Oregon Statutes and Administrative Rules:

Refer to ORS 328.280 (Appendix C) for funding and refunding of district indebtedness. OAR 170-62-000 provides the State Treasurer's advance refunding guidelines (Appendix D).

F. Method of Sale:

Sale of refunding debt issues are subject to the same rules and laws as other debt issues of the same type. Issuers may elect either negotiated or competitive sales of a refunding debt issue.

G. Timing Considerations:

The timing considerations applicable to refundings are similar to those concerning "new money" issues. However, in refundings to produce debt service savings, the issuer is even more sensitive to bond market conditions on the date of sale. Flexibility of sale date may be more critical in a refunding, therefore, than in a "new money" debt sale.

Transactions with refunding escrows that utilize SLGS are also subject to a minimum time between bond sale and closing. Subscriptions for SLGS currently must allow for 15 days between the date for which the order is placed (subscription) and when the order is filled (the closing date).

H. Examples of Required Documentation: (See Appendix A)

(a) List of required closing documents for a current refunding issue.

(b) List of required closing documents for an advance refunding issue.

I. Questions and Answers:

Q. What is a refunding?

A. A refunding is a refinancing of outstanding debt. A new issue of debt is sold and the proceeds used (usually in an escrow) to pay off some or all of an old issue. A refunding does not raise "new money" but simply provides for the refinancing of outstanding debt.

Q. Why would a district want to refund an old issue?

A. The most common reason is to reduce debt service costs when interest rates have declined. Refundings may also be used to change legal debt covenants or to restructure the payment schedule and terms of an outstanding debt issue.

Q. Does the district need voter approval for general obligation refunding bond issues? How about for a COP refunding?

A. Generally, no. State law allows issues to sell general obligation refunding issues without voter approval if the issue achieves debt service savings. Please refer to the section on Measure 5 for further details on refunding general obligation bonds. Voter approval is not required for any refinancing of a lease purchase obligation.

Q. How far do interest rates have to decline before a refunding might produce savings?

A. Generally, rates must be 1–3 full percentage points lower before a refunding may be economically feasible. The ultimate feasibility will depend on the size of the issue, the call date, the call price and other factors.

Q. Are refundings subject to different federal and state laws than other kinds of debt issues?

A. Yes. Both the U.S. Treasury and the State of Oregon have rules that apply specifically to refundings. These rules are often more restrictive than rules applying to "new money" bond issues. Issuers should consult Financing Team members early to ensure compliance with all federal and state laws and regulations.

Q. Is there a limit to how many times a debt issue can be refinanced?

A. Yes. Federal regulations set limits on how many times certain debt issue can be refinanced. Currently, a good rule of thumb is that an issuer may refinance once over the life of the original issue. Check with bond counsel for a specific ruling on your issues.

Q. Who gets the savings on a refunding?

A. Whoever is paying the debt service. In a general obligation bond, the savings are returned to the district's taxpayers in the form of lower tax rates. In a lease–purchase/COP, the district directly benefits from the lower debt service payments due from the general fund.

Q. What is an "advance" refunding?

A. Unlike a home mortgage, most bond issues cannot be prepaid at any time but can only be retired ("redeemed" or "called") after a certain specified date. In an advance refunding, the issuer sells new bonds before the old debt issue is callable. The money is deposited in an escrow that makes all principal and interest payments on the old debt until that first call date, then provides the funds to call and retire all the old debt. An advance refunding, then, allows an issuer to lock in savings now even though the old debt may not be callable for years.

Q. Does the district need to budget for the old debt once it has been refunded?

A. Even though the old debt has been "refunded", as long as it is still being paid by the escrow, the debt is still legally "outstanding". The district should make provisions in its budget to account for the old debt as a requirement and the escrow proceeds as a resource. Generally, this is true with an advance refunding.

Q. What are "present value" savings?

A. Present value is an economic term that translates future savings/costs into current dollars. It incorporates the concept that a dollar received today is worth more than a dollar received tomorrow. In a refunding, most debt service savings occur over a 5–10 year period. The "present value" of those savings provides an issuer with means of valuing those savings in today's dollars.

SECTION VI.

FEDERAL AND STATE TAX TREATMENT

The federal government has become increasingly aggressive in regulating and restricting tax-exempt debt. This section contains a brief overview of federal tax law restrictions on school district bonds and obligations. The tax restrictions unique to TANs and TRANs are addressed in Section IV.

A school district issuing tax-exempt obligations is responsible for the initial and on-going monitoring of the use and investment of all funds related to a tax-exempt borrowing. Bond counsel can advise the district on how to comply with these requirements.

A. How to Avoid Private Activity Bond Status:

The Internal Revenue Code of 1986, as amended (the "Code"), prohibits the use of bond and COP proceeds from being used directly or indirectly by any private person or the federal government. Under the Code, a bond is a private activity bond if it is part of an issue in which (a) more than 10 percent of the proceeds are used in the trade or business of any person other than a governmental unit, and (b) more than 10 percent of the payment of principal or interest on the issue is directly or indirectly secured by profit used in the trade or business. These prohibitions apply to corporations, federal agencies, nonprofit organizations and individuals. The Code does permit certain types of private activity bonds to be exempt for specific uses which in most cases will not apply to school districts. Certain nonprofit organizations which qualify under Section 501(c)(3) of the Code may use bond financed property if certain stringent rules are met.

The most common situation where private activity may pose a problem is if a district leases tax-exempt financed property to a private business. For example, if a district leases excess space in the school administration building to a private firm and the aggregate of such private use constitutes more than 10 percent of the financed property, the bonds issued to finance the property would become taxable.

If a district's food services or transportation services are to be run by a private management company, such activity will also cause taxability of interest unless the district meets certain stringent management contract guidelines.

The basic management contract guidelines are as follows:

1. The term of the contract cannot exceed five years, including renewal options;
2. At least 50 percent of the management compensation is on a periodic fixed fee basis, and no compensation is based on a net profits basis; and
3. The district must have the option of cancelling the management contract without penalty in not more than three years.

Bond counsel should review any management contract, lease or other agreement which a district thinks may have private activity implications.

If certain nonprofit organizations which qualify under Section 501(c)(3) of the Code use bond financed property, the bonds still may be tax-exempt. Note in particular, that leasing to the federal government is not allowed.

B. Arbitrage and Investment Restrictions:

The Code regulates the investment of bond proceeds. These regulations are referred to as the arbitrage rules. Arbitrage is the positive difference between the interest earned on bond proceeds and the interest paid by the district on the bonds. There are two basic sets of rules governing the investment of bond proceeds:

1. The yield restriction rules; and
2. The rules requiring rebate of arbitrage to the federal government.

Failure to meet these rules can cause the bonds to become taxable retroactively.

(a) Yield Restriction.

Absent an exception, the Code restricts investment of the proceeds of the bonds and investments to a materially higher yield (more than 1/8 of 1 percent) on the bonds. Yield is a very technical term, but generally refers to the rate of return on the investments or the rate of interest paid on the bonds. There are several notable exceptions to the yield restriction rules.

- Three-Year Temporary Period. Proceeds may be invested in an unrestricted yield for construction and acquisition projects if the district expects that 85 percent of the spendable proceeds of the bonds and investment earnings will be expended on capital projects within three years of the date the bonds are issued. Expendable proceeds are original proceeds minus (1) the amount deposited in a reasonably required reserve fund and (2) the amount of any proceeds plus investment earnings expended within a temporary period in payment of debt service on the issue. In addition, within six months from the date of the issue the district must incur a substantial binding obligation, such as a construction contract or acquisition of the property to be financed equal to the lesser of $100,000 or 2½ percent of the proceeds of the bonds. Construction of the project must be pursued with due diligence by the district.

- Reasonably required reserve funds. On COPs, the underwriter will require the district to establish a reserve fund. The reserve fund may be financed from the proceeds of the issue and invested at an unrestricted yield so long as it is limited in size to the lesser of 10 percent of the proceeds of the issue in an amount equal to the maximum debt service of the issue or 125 percent of the average annual debt service of the issue. Additional resources of the district may be pledged as reserve but must be yield restricted.

- Bona fide debt service fund. Accounts established by the district solely to pay debt service on the bonds may be invested an unrestricted yield to the extent that monies and investment earnings in the fund are expended at least every 13 months to pay debt service on the bonds.

- Minor Portion. In addition to the foregoing amounts, the lesser of 5 percent of the proceeds or $100,000 may be invested in an unrestricted yield.

(b) Rebate Restrictions.

The second set of investment restrictions from the federal government require rebate of any arbitrage unless certain exceptions are met. The Code provides the following exceptions:

- Bona Fide Debt Service Fund. The debt service fund established by the district is exempt from rebate to the extent (i) the bonds or COPs have an average maturity of at least five years and have fixed interest rates or (ii) the fund is depleted annually to repay the debt service and earns less than $100,000 per year.

- Small Issuer Exception. The school district expects to issue not more than $5 million of tax-exempt obligations within the calendar year. Under this test, not only bonds, but any lease-purchase obligations and TANs or other borrowings of the district count towards the $5 million limit.

- Six-Month Exception. No rebate is required if 100% of proceeds and investment earnings are spent within 6 months of the closing date.

- Construction Exception. 75 percent or more of bonds, the proceeds of which will be used for construction are exempt from rebate requirements if the bond proceeds are spent and investment earnings are spent within two years following the date of issuance in minimum increments. Should the expenditure requirement not be met, a rebate is required or if the penalty option is elected at the time of bond issuance, the penalty equal to 1.5 percent of the under expended amount must be paid. The periods and percentages for expended gross construction proceeds are as follows:

6 months after issuance	10%
1 year after issuance	45%
18 months after issuance	75%
2 years after issuance	95% (5 percent may be held as retainage)
3 years after issuance	100%

Even if the district has complied with one of the rebate exceptions, it should have bond counsel, an accounting firm or other recognized expert compute any rebate liability. Every five years from the date of the issue, the district must pay 90 percent of the rebateable amount owing to the federal government for the preceding five-year period. Any remaining rebate amount must be paid within 60 days of the final maturity or earlier redemption of the bonds.

C. Bank Qualified Obligations:

A school district may benefit from substantial interest savings by designating its bonds as "qualified tax-exempt obligations." This designation is available to districts which reasonably expect to issue $10 million or less in tax-exempt debt in any calendar year. This special designation is permitted by Section 265(b)(3) of the Code which provides an exception to the rule that banks and other financial institutions requiring tax-exempt obligations may not deduct their interest expense.

D. Registration:

The Code requires new issues of tax-exempt securities with maturities of one year or more to be in registered form (owners of registered bonds are recorded by name and address in the bond register maintained by the bond registrar and all subsequent bondowners are also recorded). Securities may be registered generally in certificate form, or full book-entry form. When registered in certificate form, the investors hold the physical certificates representing the principal amount of bonds they own (most often in denominations of $5,000, or multiples of $5,000). When a full book-entry system of registration and processing is used, no physical certificates are issued to the investors and all processing is accomplished electronically. In each instance, the bonds are identified according to the number assigned to an issue (CUSIP number), the interest rate and the year of maturity.

The Depository Trust Company ("DTC"), a depository company in New York, is the most frequently used entity for electronically processing the receipt and payment of principal and interest to bondowners. This service is a cost of the bond purchaser, not the district. Electronically processed debt service payments should provide a net savings to the district since it potentially reduces paying agent fees.

E. IRS Information Reports - Form 8038-G:

The Code requires a school district issuing tax-exempt debt to file with the Internal Revenue Service an information report (IRS Form 8038-G or IRS Form 8038-GC) containing information on the district, the issue, the property financed, and such other information as may be required by the Treasury Department. Bond Counsel will prepare this document as part of the bond closing documentation. This requirement applies to all tax-exempt obligations including small equipment leases.

F. Reimbursement Rules:

The Internal Revenue Service has proposed rules which require a school board to take certain actions prior to incurring any costs for which the district will be reimbursed for out of tax-exempt obligations. In April 1991, the Internal Revenue Service published proposed regulations for "reimbursement bonds", to be effective as of September 7, 1991. The IRS announced on August 23, 1991 that the "final regulations on reimbursement bonds will not apply to bonds issued prior to the date that is 30 days after the date on which the final regulations are published in the Federal Register". "Reimbursement bonds" are bonds the proceeds of which are used to pay back to the district funds previously expended by the district for acquisition and construction projects. THE NEW REGULATIONS WOULD HAVE A SEVERE IMPACT ON PROCUREMENT PRACTICES OF SCHOOL DISTRICTS. The final regulations have not been published as of the date of this manual. You are advised to consult bond counsel regarding the status of this regulation.

G. Caution–Tax Rules Ever Changing:

Federal tax rules are subject to constant change. These changes occur because of legislative changes to the Code, changes in the Treasury regulations and the issuance of new IRS rulings. Failure to abide by these new or revised rules and regulations can result in severe financial and legal consequences to the district. The foregoing discussion is a brief overview of an extremely complex area of law. Bond counsel will help a district with any of these tax–exempt bond questions. A school district issuing tax–exempt debt should not hesitate to call bond counsel if any tax issue question arises either before, during or after a particular financing; bond counsel are generally only paid for their advice out of the proceeds of an issue at the time of closing.

SECTION VII.

SECURITIES LAW (DISCLOSURE)

A. SEC and MSRB Regulation of Underwriters and School Districts:

There is a definite trend towards increased regulation of municipal securities such as school district bonds and COPs. While municipal securities are generally exempt from the registration requirements of the Securities and Exchange Acts of 1933 and 1934, they remain subject to the anti-fraud provisions of Section 17(a) of the 1933 Act, Section 10(b) of the 1934 Act and Rule 10b-5 promulgated pursuant to the 1934 Act. These provisions prohibit the sale of securities (including municipal securities) using interstate commerce or the mails, in a fraudulent manner. Both Section 17(a)(2) and Rule 10b-5(b) prohibit making "any untrue statements of a material fact or any omission to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading." School attorneys familiar with official statements will recognize these standards which they and their clients are asked to opine on.

These anti-fraud provisions apply only to information that a school district provides; they do not require that the school district disseminate or produce an official statement. However, with certain limited exceptions[1], under SEC Rule 15c2-12 (the "Rule"), effective January 1, 1990, underwriters must obtain and review a "near final" official statement and contract with the district to receive copies of a final official statement.

Although the requirements of the Rule apply to underwriters, the indirect consequences are that districts are required to provide "near final" and final official statements to underwriters according to the time restraints imposed by the Rule. More specifically, the Rule requires, in a competitive sale, that a "near final" official statement be received by the underwriter before bidding on a bond issue and, in a negotiated sale, the underwriter must obtain a copy of the near final official statement before the earlier of (a) the date on which the underwriter signs the bond purchase agreement or (b) the first sale of the bonds. A "near final" (also called a "deemed final") official statement must be complete in its disclosure about the district and can only omit certain information concerning the terms of the municipal securities and the underwriter.

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[1] The Rule does not apply to securities that fit within one of the following exceptions:

(1) The Rule does not apply to municipal securities in the aggregate principal amount of less than $1 million.

(2) The Rule does not apply to municipal securities that are issued in denominations of $100,000 or more if any of the following exemptions can be met:

(a) the securities are sold to no more than 35 sophisticated investors who are purchasing for their own account and not for resale to others and who have sufficient knowledge and experience in financial and business matters that they are capable of evaluating the merits and risks of the prospective investment,

(b) the municipal securities have a maturity of 9 months or less, or

(c) the municipal securities may be tendered for redemption or purchase at the option of the holder at par or greater at least every 9 months until the maturity date of the municipal securities.

With respect to the delivery of a final official statement, the underwriter must contract with the school district to receive sufficient copies within seven business days after the bonds are sold to the underwriter. This requirement necessitates, in a competitive sale, that school districts request in the bid form that underwriters indicate the number of copies needed and that the district agrees to pay for such copies within a reasonable limit.

In many offerings, preliminary official statements are also used. The Rule does not require that they be prepared. However, Oregon statutes require school districts to prepare preliminary official statements. The Rule requires an underwriter in a negotiated sale to deliver them to any potential customer that requests one. Further, since the distribution of a preliminary official statement is viewed as an "offer to sell", school districts will be required to "deem final" such preliminary official statements.

Not only has the SEC imposed additional disclosure responsibilities on underwriters and, indirectly on school districts, the Municipal Securities Rulemaking Board (the "MSRB") has also joined the act. Effective January 1, 1990, MSRB Rule G-36 requires underwriters to send copies of final official statements and Form G-36 to the MSRB unless the issue qualifies for an exemption under the Rule. Again, although MSRB Rule G-36 applies to underwriters, the dissemination of final official statements to yet another source furthers the emphasis that will be placed on the accuracy of disclosure.

B. 1991 GFOA Disclosure *Guidelines*:

Given the increased pressure put on underwriters to obtain and review disclosure documents, it is no surprise that new guidelines which increase the amount and detail of such disclosure were forthcoming. The *Disclosure Guidelines for State and Local Government Securities* (the "*Guidelines*") were produced by the Government Finance Officers Association (the "GFOA") and released in 1991. The *Guidelines* update guidelines for official statements first released in 1976 and last updated in 1988. They differ from the 1988 version in the following areas:

Format.

The *Guidelines* provide a standardized format for official statements. No format was provided in the 1988 version and the one which has developed in the marketplace differs from that suggested by the *Guidelines*. With respect to the cover page, the *Guidelines* suggest reducing the amount of textual information contained on the cover page, including maturity dates, principal amounts and interest rates in columnar form, and including a warning statement that the cover page is a summary that is not to be relied upon. The *Guidelines* also recommend the inclusion of an introduction which is more extensive than previous introductory or summary statements.

Content.

Although the general categories of information recommended for inclusion are similar to those currently included in official statements, the suggested scope of such information has expanded. For example, the *Guidelines* suggest including information on environmental risks, historical and current data concerning retail sales and commercial and savings bank deposits, and five year trends for financial data.

Continuing Disclosure.

The new section on continuing disclosure recommends that school districts provide, on an annual basis, information useful to the secondary market (e.g. a comprehensive annual financial report) to national municipal repositories, trustees and other interested parties. The *Guidelines* also suggest updating the secondary market on pending judicial, administrative or regulatory proceedings that may significantly affect a school district's outstanding securities.

Procedural Statements.

The procedural statements were included by the GFOA to provide school districts with recommended procedures for providing information to underwriters, investors, and other parties involved in a municipal securities transaction. They are an useful guide to the roles and responsibilities of the parties to a municipal securities offering and sale.

Appendices.

Finally, the *Guidelines* include extensive appendices which provide extracts from the *Disclosure Handbook for Municipal Securities* (1990) of the National Federation of Municipal Analysts. These extracts provide disclosure recommendations for specific types of municipal securities offerings (e.g. general obligation bonds, general obligation notes, certificates of participation, etc.).

Although the *Guidelines* are "merely" suggestions, it is incumbent upon school districts and their Financing Team to carefully review the national standards set forth in the *Guidelines* given the increased enforcement tools recently provided to the SEC.

C. **Summary**:

In summary, the developments in the regulation of municipal securities are threefold. First, school districts and their counsel are under increased pressure to provide disclosure documents according to the timelines of the Rule. Second, the national standards for disclosure have increased in scope and detail. Third, the penalties and enforcement reach of the SEC with respect to fraudulent disclosure have increased. These developments necessitate that school districts work closely with their counsel, bond counsel, financial advisor, underwriter and school attorney to assure the accuracy and timeliness of all disclosure documents.

SECTION VIII.

EFFECTS OF MEASURE 5

On November 6, 1990, the voters of the State approved an amendment to the Oregon Constitution (Section 11b, Article XI) ("Measure 5") which limits the amount of property taxes which may be imposed by municipalities. Measure 5 uses many terms which do not have established meanings under Oregon law. To clarify the provisions of Measure 5, the Legislature enacted House Bill 2550 and House Bill 3048. House Bills 2550 and 3048 took effect on September 29, 1991. Measure 5 does not affect the statutory authority of school districts to issue debt: it simply limits the amount of property taxes which can be used to pay debt service on certain types of debt instruments.

A. **Measure 5 Generally**:

Measure 5 created a new definition of "property taxes" which includes not only ad valorem property taxes, but also other fees and charges imposed by a school district upon property or upon a property owner as a direct consequence of ownership of that property. Many of these fees and charges were not previously defined as "property taxes" under Oregon law. Measure 5 has separate limits for property taxes which are used for school purposes and those used for other governmental purposes.

Beginning in the fiscal year commencing July 1, 1991, taxes imposed on property are to be separated into two categories, one for property tax revenues raised to fund school districts and one for revenues raised to fund government operations other than schools. For public school systems, Measure 5 phases in the amount of the property tax limitation over a five-year period according to the following schedule:

Maximum Allowable Rates: Combined School Taxes
For Each $1,000 of Real Market Value

Fiscal Years	School Property Taxes
1991-1992	$15.00
1992-1993	12.50
1993-1994	10.00
1994-1995	7.50
1995-1996 and thereafter	5.00

B. **Exemptions from Property Tax Limitations**:

Section 11b, Article XI of the Oregon Constitution exempts from its property tax limitations:

> taxes imposed to pay the principal and interest on bonded indebtedness incurred or to be incurred for capital construction or improvements, provided the bonds are offered as general obligations of the issuing governmental unit and provided further that either the bonds were issued not later than November 6, 1990, or the question of the issuance of the specific bonds has been approved by the electors of the issuing governmental unit.

Or. Const. Art. XI, § 11b(3)(b).

The Legislature has defined "exempt bonded indebtedness" to incorporate these exclusions from Measure 5's property tax limitations. Section 213(3)(b) of 1991 Or. Laws, Chapter 459 (House Bill 2550) excludes "exempt bonded indebtedness" from the property tax limitations of Measure 5. Exempt bonded indebtedness is defined in Section 210 of the bill and must meet the definition of "bonded indebtedness" found in Section 210. "Bonded indebtedness" is defined as any formally executed written agreement representing a promise by a unit of government to pay another a specified sum of money, at a specified date or dates at least one year in the future.

There are three categories of exempt bonded indebtedness. They are: 1) bonded indebtedness authorized by a specific provision of the Constitution; 2) bonded indebtedness issued on or before November 6, 1990 for capital construction or improvement; and 3) voter-approved bonded indebtedness issued after November 6, 1990 for capital construction or improvement. Thus, issued and outstanding bonds will not be counted against the Measure 5 property tax limitation as long as they were originally for "capital construction" or "capital improvements". Also, bonds approved by voters for "capital construction" or "capital improvements" issued after November 6, 1990 are not subject to the property tax limitations of Measure 5.

In addition, the definition of "exempt bonded indebtedness" include bonds that refund or refinance outstanding bonds, as long as the prior bonds were for capital construction or capital improvement when issued. Accordingly, refunding bonds will not be counted against the Measure 5 property tax limitations, nor will they require voter approval, as long as they refund bonds that were for "capital construction" or "capital improvement" when originally issued and meet the requirements discussed in Section E of this chapter.

C. Definition of Capital Construction and Capital Improvement:

Section 210 of House Bill 2550 contains definitions of capital construction and capital improvements. "Capital construction" is defined as:

> the construction, modification, replacement, repair, remodeling or renovation of a structure, or addition to a structure, which is expected to have a useful life of more than one year, and includes, but is not limited to:
>
> (a) Acquisition of land, or a legal interest in land, in conjunction with the capital construction of a structure.
>
> (b) Acquisition, installation of machinery or equipment, furnishings or materials which will become an integral part of a structure.
>
> (c) Activities related to the capital construction, such as planning, design, acquisition of interim or permanent financing, research, land use and environmental impact studies, acquisition of permits or licenses or other services connected with the construction.
>
> (d) Acquisition of existing structures, or legal interests in structures, in conjunction with the capital construction.

1991 Or. Laws, ch. 459 § 210(17) (Enrolled House Bill 2550).

"Capital improvements" is defined in Section 210 to include "land, structures, facilities, as that term is defined in ORS § 288.805, machinery, equipment or furnishings having a useful life longer than one year." *Id*. at § 210(19). The definition of facilities found in ORS 288.805 includes "real property, including land, streets and other improvements, betterments, appurtenances, structures and fixtures, and personal property that is functionally related and subordinate to real property." ORS § 288.805.

House Bill 2550 makes these definitions part of ORS Chapter 310 (on levying property taxes), but also makes them applicable to the "revenue and tax laws. . .and for purposes of section 11b, Article XI of the Oregon Constitution." *Id*. at § 210. Therefore, these definitions apply wherever bonds are subject to the property tax limitations of Measure 5.

D. Limited Tax Bonds:

In addition to general obligation bonds, a school district may issue limited tax bonds[1] if authorized by a resolution or ordinance of its governing body. 1991 Or. Laws, ch. 902 at § 99(2) (Enrolled House Bill 3048). When issuing limited tax bonds, the district may establish, or allow its employee to establish, the various terms of the bonds. *Id*. at § 99(3)(a). Also, the district may pledge as additional security for the bonds other revenues (from whatever source derived) not otherwise restricted by law to payment of other obligations. *Id*. at § 99(3)(b).

In addition, the district is allowed to enhance the security of limited tax bonds by granting mortgages, trust deeds or security interests in property financed by the limited tax bonds. *Id*. at § 99(3)(c). The security of the limited tax bonds may also be enhanced by a "credit enhancement device," which is defined as "a letter of credit, line of credit, municipal bond insurance policy, standby purchase agreement or other device." *Id*. at § 99(3)(d).

The issuer may also enter into agreements with bond trustees or covenants for the benefit of bond owners or providers of credit enhancement devices for bonds. *Id*. at § 99(3)(e). In addition, the issuer may establish a debt service reserve for the purpose of paying all amounts owing on such bonds when due. *Id*. at § 99(3)(f).

A security interest granted pursuant to Sections 98 to 101 of 1991 Or. Laws, ch. 902, "shall attach and be perfected on the date the security interest is granted or the date the governmental unit takes possession of the property in which the security interest is granted, whichever is later. . . .[and] shall have priority over all other liens and claims." *Id*. at § 99(4).

E. Conditions for Issuing Refunding General Obligation Bonds:

Refunding general obligation bonds may be issued *without* voter approval if the refunding bonds "replace an issue of outstanding general obligation bonds which were incurred for capital construction or improvements." 1991 Or. Laws, ch. 902 at § 100(1)(b). Subsection (2) specifies under which circumstances the refunding bonds are deemed to replace outstanding bonds.

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[1] A limited tax bond is defined as "a bond or other obligation which is a full faith and credit obligation, and which is payable from any taxes which the issuer may levy *within* the limitations of Section 11 or 116, Article XI, of the Oregon Constitution." 1991 Or. Laws, ch. 902, at § 98(8) (emphasis added).

"Refunding general obligation bonds shall be deemed to replace outstanding general obligation bonds if 1) the refunded bonds are paid, or legally deemed paid[1], upon issuance of refunding bonds; and 2) the refunding bonds' net proceeds are used to pay only the costs of issuance of the bonds and the debt service on the refunded bonds; and 3) the bond refunding satisfies at least one of three tests. Id. at § 100(2).

The three tests are essentially financial in nature and appear to ensure that refunding bonds issued under Section 100, which do not require voter approval, do not increase property taxes. The tests, only one of which need be satisfied, are: 1) the principal amount of the refunding bonds does not exceed the outstanding principal amount of refunded bonds, plus any authorized but unissued bonds; 2) on the date of issuance the total principal and interest payments on the refunding bonds does not exceed that of the refunded bonds; or 3) the present value of the debt service on the refunding bonds does not exceed that of the refunded bonds, both calculated at the refunding bond yield. Id. at § 100(2)(c).

Refunding general obligation bonds that meet these requirements are deemed to have been issued on the date of issuance of the general obligation bonds being replaced. Id. at § 100(3)(a). This permits general obligation bonds issued prior to November 6, 1990 which were not voter-approved to be refunded without voter approval and not count against the property tax limitations of Measure 5.

If the bonds to be replaced were voter approved, the refunding bonds are deemed to have been specifically voter approved at the same time as the refunded bonds. Id. at § 100(3)(b). This allows general obligation bonds that were voter-approved to be refunded without voter approval and not count against Measure 5's property tax limitation.

There is also a provision in Section 100 of Chapter 902 that deletes the requirement of stating the principal amount of refunding bonds in the ballot measure if the refunding bonds comply with the requirements previously discussed.

F. **Short-Term Borrowing**:

Section 101 of House Bill 3048 allows a district to make certain short-term borrowings and pledge certain funds for their repayment. All borrowing authorized under this section must comply with any applicable limitations imposed by the Constitution or other laws, ordinances or resolutions. 1991 Or. Laws ch. 902 § 101(1) (Enrolled House Bill 3048).

A district may borrow money by entering into a credit agreement, or by issuing notes, warrants, commercial paper or other obligations. Id. at § 101(1). The money may be borrowed: 1) in anticipation of taxes, grants or other revenues; 2) to provide interim financing for capital assets to be undertaken by the governmental unit; or 3) to refund obligations authorized under this section. Id.

To secure any of these obligations, the district is authorized to "pledge its anticipated taxes, grants, other revenues, the proceeds of any bonds or other permanent financing" or pledge any combination thereof. Id. at § 101(2)(a). In addition, the district may segregate any pledged funds into separate accounts, enter into contracts with third parties to provide additional security for obligations, establish any reserves deemed necessary for repaying the obligation, and agree to covenants and provisions for the protection and security of the owners of the obligations. Id.

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[1] Refunding bonds are deemed paid for this purpose if: 1) the provisions of the documents authorizing their issuance deem them paid, or 2) the governmental unit complies with ORS 288.677, which allows an irrevocable escrow of funds to pay the principal and interest of the refunded bonds. Id. at § 100(5).

Section 101 grants to districts broad authority to issue these obligations in any form and with any terms, including floating rate obligations and provisions for redemption at the option of the owner. Id. at § 101(6). Another provision allows these obligations to be sold at public or private sales upon terms the district, or State Treasurer, find advantageous, with disclosure only as they deem appropriate. Id. at § 101(8).

However, obligations issued under this section must also comply with ORS 287.040 which requires the issuer to give prior notice of the proposed issuance to the Oregon Municipal Debt Advisory Commission in such form and at such time as the commission may specify. ORS 287.040. Nonetheless, these grants of broad authority give districts great flexibility in obtaining short-term financing without voter approval.

The district, or State Treasurer, may contract with third parties to serve as agents for the issuance, payment, and authentication of such obligations. Id. at § 1010(7).

G. Authorization of Negotiated Sale or Competitive Bid:

House Bill 3048 amends ORS 287.028 to authorize a "municipality" to negotiate the sale of its bonds, subject to a report by an expert advisor, or sell its bonds at a public competitive bid sale. 1991 Or. Laws, ch. 902 § 95(1) (Enrolled House Bill 3048). This provision effectively allows an issuer to negotiate the sale of any of its bonds. Prior law had limited the negotiated sale of bonds to certain categories of bond transactions.

As used in ORS Chapter 287, "Municipality" is defined as "this state's political subdivisions and municipal, quasi-municipal and public corporations authorized by law to issue bonds." ORS 287.001. In Oregon, school districts have been defined as both political subdivisions of the state and as quasi-municipal corporations. See, e.g., Vendrell v. School Dist. No. 26C, Malhuer County, 226 Or. 263, 360 P.2d 282 (1961) (school district is a political subdivision of the state); Monaghan v. School Dist. No. 1, Clackamas County, 211 Or. 360, 315 P.2d 797 (1957) (school district is a civil division of the state and is a quasi-municipal corporation).

Therefore, a school district, as a "municipality," may now choose to either negotiate the sale of its bonds or continue to sell them at a public competitive bid sale. If a negotiated sale is chosen, the amendment to ORS 287.028 requires the issuer to "engage an expert advisor who shall deliver to the issuer a report evaluating the terms of the proposed negotiated sale, prior to sale of the bonds." 1991 Or. Laws, ch. 902 § 95(1).

Section 105 of House Bill 3048 amends ORS 288.885 which lists several requirements for any public competitive bid sale of bonds. Previously, subsection (3) of ORS 288.885 required notice of a proposed bond sale of $3 million or more to be published in at least one issue of a national financial newspaper not less than ten days preceding the date of the proposed sale. The bill amends the dollar limit for which such notice is required from $3 million to $10 million. Id. at § 105.

H. Judicial Review Procedures:

House Bill 2550 provides some protection for school districts if taxpayers challenge imposed taxes. House Bill 2550 provides judicial review procedures to allow school districts to obtain some certainty on whether a particular item constitutes bonded indebtedness exempt from Measure 5's limits. The provisions are intended to minimize the risk to school districts of misclassification by providing taxpayers, prior to imposition of a fee or tax, notice of classification and an opportunity to challenge the same. The provisions apply to new ordinances which impose and revise fees and charges or include taxes on new bonded indebtedness, and to existing resolutions or ordinances establishing fees and charges or imposing taxes for bonded indebtedness.

House Bill 2550 provides that the Oregon Tax Court shall have exclusive jurisdiction over taxpayer challenges based on Measure 5. Section 26 of House Bill 2550 is incorporated into the current statutory powers of the Oregon Tax Court. Or. Laws, ch. 959, § 26. The Oregon legislature established the tax court as part of the judicial branch of state government. ORS 305.405. The Oregon Tax Court is the "whole, exclusive, and final judicial authority for the hearing and determination of all questions of law and fact arising under the tax laws of this state." ORS 305.410(1). See Department of Revenue v. Quigley, 294 Or. 304, 655 P.2d 1058 (1982). House Bill 2550 also provides that Measure 5 cases must be given case priority over other pending cases.

House Bill 2550 provides that only "interested taxpayers" (i.e. those subject to the challenged fee or charge) have standing to file in the Oregon Tax Court. Further, the suit must be filed by at least ten such interested taxpayers and they can file suit only within specified time frames.

As a general matter, the taxpayers must file suit within 60 days of certain actions taken by a school district or they waive the right to challenge the classification. If the school district's resolution approving the bonded indebtedness contains a classification of the indebtedness as "exempt bonded indebtedness" then the 60-day period begins from the date the resolution is approved. If no classification is adopted, then the 60-day period begins when tax statements are mailed for the tax year in which taxes are first imposed to repay the bonded indebtedness.

If the school district adopts the classification in a resolution or ordinance, notice must be published in a newspaper within general circulation in the county in which the school district is located. If no such paper exists, the notice must be published in a newspaper of general circulation in a contiguous county. The notice must be published within 15 days after adoption of the ordinance or resolution containing the classification. In addition, the notice must:

> (a) Appear in the general news section of the newspaper, not in the classified advertisements;
>
> (b) Measure at least three inches square;
>
> (c) Be printed in a type size at least equal to 8-point type; and
>
> (d) State that the school district has adopted a resolution or ordinance classifying one or more of its taxes, fees, charges or assessments as not being subject to the limits of section 11b, Article XI of the Oregon Constitution, that the reader may contact a designated individual within the school district to obtain a copy of

> the ordinance or resolution, and that judicial review of the classification of the taxes, fees, charges or assessments may be sought within 60 days of the date of the resolution or ordinance.

Since House Bill 2550 establishes that the Oregon Tax Court shall have exclusive jurisdiction and Oregon case law recognizes such jurisdiction, if the school district adopts the classification, provides the required notice, and waits 60 days, or if 60 days has passed since the mailing of the tax statements, and if no suit is filed, a school district can be reasonably certain that the fees or charges may be imposed without risk of a court later declaring the fee or charge subject to Measure 5's limits. If a suit is filed in the Oregon Tax Court within the 60–day period, House Bill 2550 provides that a review of the Oregon Tax Court's decision can only be by appeal to the Oregon Supreme Court. To preserve the right to appeal, the taxpayers must file a notice of appeal or writ of review within 30 days of the Oregon Tax Court's judgment.

SECTION IX.

RATINGS AND CREDIT ENHANCEMENTS

A. Ratings and Rating Agencies:

A primary goal of school districts issuing any type of debt is to obtain the lowest possible interest rate. The interest rate received on any debt issue is directly related to investors' perception of the value of that debt. This perception is based on many factors, but a very important factor is the credit quality of the debt.

A school district can often enhance the perception of its credit quality, and obtain lower interest rates, by obtaining a rating of its debt by a national credit rating agency. These agencies are for-profit corporations whose staff, for a fee paid by a school district issuer, will analyze the credit quality of a particular debt issue. The rating agency will then assign one of a number of standardized ratings ("A" or "AAA" for example) to that issue. (See Appendix A for a sample rating report.) In general, the higher the debt rating the lower the interest rate that investors will accept.

There are three major rating agencies that analyze school district debt. These are Moody's Investors Service, Inc., Standard & Poor's Corporation and Fitch Investors Service. All three agencies are headquartered in New York and all but Fitch have rating offices in San Francisco. Moody's and Standard & Poor's are the best known agencies and provide ratings for the most debt issues. Fitch has recently made efforts to expand its business among local governments but has not as yet (October 1991) provided a rating for an Oregon school district.

All three agencies have a standardized series of rating symbols. As an example, Moody's rates school district long-term debt issues on a scale of Aaa (the highest category) to D (a security that is in default). The lowest rating that is considered "investment grade" by Moody's is Baa. All three agencies' symbols are similar but all have slight variations. Please refer to Appendix A, for a listing of the various systems.

There are separate rating symbols assigned to short-term debt obligations such as tax and revenue anticipation notes. Descriptions of the ratings symbols used in short-term debt ratings are also included in Appendix A.

B. What Determines a Rating?

In general, a particular rating is assigned to a debt issue based on a rating agency's opinion as to the probability of timely payment of principal and interest on that issue.

Although not a complete listing, the following factors are among the most important in a rating analysis:

Financial Analysis.

Prior budgets and audited financial statements are reviewed to determine if adequate resources are available to pay debt service. For debt that is to be repaid primarily from property tax collections, factors such as concentration of property in one or two large taxpayers, real market value growth, tax delinquencies and similar items are considered.

Debt Structure.

A rating agency will also examine how the debt issue is structured. Among the questions asked by a rating agency are:

- Is repayment deferred or accelerated?
- Is the length of the debt related to the useful life of the improvements financed?
- What are the district's plans for future debt issuance?
- Does the district adequately plan for future and current capital financing needs.

Local Economic Conditions.

Among the factors considered in evaluation of the district's local economy and, therefore, its ability to repay debt are the following:

- Levels of income and growth (or decline) in those levels;
- Diversity and strength of the local employment base;
- Building activity; and
- Population growth.

A number of other economic and demographic criteria may also be evaluated for the purpose of determining a district's long-term ability to repay its debt.

Administration and Management.

The level of expertise and stability of a district's key management is considered an important factor in assigning a rating. This evaluation is not based solely on objective criteria but also on contact with administrative personnel, examination of financial reports and other documents and similar factors.

The general discussion set forth above should not be considered an exhaustive listing of those matters considered in awarding a rating. There is also no completely objective means used to assign a rating on the basis of those factors considered. This can lead to districts in very similar financial, economic and geographic conditions being awarded different ratings.

C. How is a Rating Assigned?

The procedure for assigning a rating to a debt issue is largely the same for all rating agencies, although there are some differences. In general, an analyst will evaluate the credit quality of the particular issue under review. This analysis is used to develop a rating recommendation.

The analyst will then take the recommendation to a rating committee. A rating committee will usually consist of three to five members, some of whom will be senior to the analyst. The committee will vote to assign a rating after receiving the analyst's recommendation. Generally, the rating assigned will be the one recommended.

It is not unusual, however, for a rating committee to assign a rating other than that recommended.

There may be an appeals process if a district feels the rating assigned is inappropriate. Appeals are seldom granted and then only on the basis that the rating agency did not consider all relevant information in awarding a rating.

D. Should a School District Apply for a Rating?

A school district should apply for a rating on its bond or other debt issue only if the rating will save the school district money through lower interest costs or if a district has rated bonds outstanding on which it wishes to maintain its rating. This determination depends on a number of factors and should only be made after consultation with the district's Financing Team. There is a cost associated with a rating because of the rating fee involved and the costs of preparing ratings materials and presentations. These costs must be more than offset by lower interest costs before a rating should be obtained. The district's financial advisor or underwriter can provide the information necessary to make a decision to seek a rating.

A school district is not required by law to seek a rating. Debt can be successfully issued without a rating unless an issue is very large in size or unless special factors are present. In fact, it is often better to issue debt without a rating than to issue with a very low level of rating. Investors are often more concerned about the credit quality of an issue with a low rating than would be the case of an issue without a rating. Again, a district should consult its underwriter or financial advisor for advice on whether to seek a rating.

E. Bond Insurance:

Districts may also enhance investors' perception of their credit ratings by obtaining a municipal bond insurance policy. Certain insurance companies specialize in issuing such policies. For payment of a premium at the time of issuance, these companies will insure the payment of principal and interest on a district's bonds or other debt obligations. The premium is a one-time cost and a policy of bond insurance is irrevocable once issued.

School districts or other issuers will frequently obtain a policy of bond insurance because the rating agencies will substitute the bond insurer's rating for that of the issuer. In all cases, recognized bond insurers have a Aaa or AAA rating from the rating agencies. If an issuer has a relatively low rating on its own credit, the substitution of the bond insurer's rating can lead to substantially lower interest costs over the life of a bond or other debt issue. Investors will purchase an issuer's debt based on the higher rating of the bond insurer and will accept lower interest rates based on that higher rating.

In order to make an informed decision to purchase a policy of bond insurance, a school district should consult with the finance professionals on its Financing Team. The cost of obtaining a policy of insurance is substantial. It makes financial sense not to incur this cost unless the interest rate savings from the higher rating are in excess of the insurance premium. Interest savings must be discounted to current value to make a correct decision.

Because the relative market value of purchasing bond insurance fluctuates with market conditions, a district must have the expert advice of a professional with up-to-the-minute knowledge of tax-exempt interest rate levels. A school district's underwriter or financial advisor should be able to provide this information together with advice on the procedure for obtaining bond insurance.

SECTION X.

LOCAL BUDGET LAW

When a bond issue is approved by the voters in a school district, certain requirements must be met to conform to Oregon's bonding and local budget law. Listed below are general statements that should be considered:

A. Capital Projects Fund:

A capital projects fund must be established to account for the resources and expenditures of the bond sale proceeds. The estimated resources and expenditures must be shown on the budget detail sheets and publication forms in the next fiscal budget under the column labeled "Budget This Year." (See examples in this Section.)

If voters approve the bonds in the current fiscal year and the bonds will be sold in the next fiscal year, the bond sale proceeds must be budgeted in the next fiscal budget before the proceeds cań be spent. A capital projects fund must be established to receive the anticipated bond sale proceeds, from which such capital project costs will be paid.

If the bond issue passed during the fiscal year, authority to expend without publication may occur if authorized by the school board. ORS 294.326 (4) states:

> Subsection (1) of this section shall not apply to the expenditures during the current year of the proceeds from the sale of bonds, whenever the approval of the bond issue by the people occurs after the budget for the current year has been adopted by the governing body and the bond sale occurs in the same year as the approval of the bond. However, subsection (1) of this section shall apply to the expenditure of money from sale of bonds which were approved by the people prior to the preparation of the current year's budget or which were sold in a prior year and carried forward into the current year.

ORS 287.012 provides that when bonds are sold, the bond proceeds must be deposited in an improvement fund established for the purpose for which the bonds were issued. Any proceeds above the principal from the bond sale must be placed with the principal in the improvement fund or in a debt service fund to repay the bonds.

B. Debt Service Fund:

A debt service fund is a fund established to account for paying principal and interest on all outstanding debt. There may be several bond issues accounted for in one debt service fund. Set up a separate account for each bond issue. Transactions to record the redemption of outstanding bonds with proceeds of refunding bonds are also recorded in a debt service fund.

ORS 328.260 provides for a "debt service fund" and a tax levy to pay the principal and interest. This law also requires that any cash on hand or unused working capital in the fund must be invested and the earnings used to pay bond principal and interest.

Resources cannot be diverted or used for any other purpose. Transfers from a debt service fund are not allowed in most cases. If allowed by the bond documents, there are two conditions under which a transfer may be made:

1. Transfer is lawful from a debt service fund to repay an inter-fund loan.

2. If a surplus remains after all interest and principal are paid, the fund may be dissolved and the balance transferred to any fund originally designated by the governing body, or as included in the bond contract.

Payments for bond principal and interest must be appropriated from a debt service fund. If the first payments come due and were not anticipated, appropriations must be made by a supplemental budget.

C. **Structuring Issues**:

Forecasting principal payments on bonds is relatively straight forward and easily obtained from the bond amortization schedule. The first payment may be timed with your debt service tax levy. Subsequent principal payments will occur at 12 month intervals, probably falling on the anniversary date of the sale. Scheduling of the initial principal and interest payments is a structuring issue and you should refer to bond counsel and your financial consultant for advice. Section II.c. also provides helpful information on structuring.

D. **Budgeting Principal and Interest**:

Oregon's bonding and local budget law requires local governments to forecast requirements for debt service obligations. This includes disclosure of the due dates and amounts of both principal and interest. Consideration of these due dates determines when property tax revenues are collected. For example, if the due date of a payment occurs July through October the debt service budgeting must occur in the prior fiscal year and be carried forward as a net working capital.

E. **Appropriation**:

Appropriation authority must be granted from the district school board prior to the expenditure of funds. Prior to accomplishing the appropriation resolution, local budget law must be satisfied in one of the following situations:

1. Estimates included in a proposed budget and subsequently approved by the budget committee and a hearing held by the school board.

2. Supplemental budget following the same procedure as in 1. above.

3. Authority granted by ORS 294.326(4) (excluding debt service).

F. **Failure to Budget Debt Service Requirement**:

If bond principal and interest payments come due without adequate funds to cover the expenditures, the county treasurer is granted broad authority to make the scheduled payments. ORS 328.265

G. Bond Sales and Debt Service:

ORS Chapter 287 provides for borrowing and bonds of counties, cities, and districts, generally. The governing body of any municipal corporation must follow the law when incurring an indebtedness by borrowing money or selling bonds. The importance of disclosure concerning the issuance of municipal bonds has increased in recent years, requiring complete and accurate financial and economic information by all issuers. To help local governments deal with this demand for disclosure, the 1975 Oregon Legislature established the Oregon Municipal Debt Advisory Commission. Staffing of the commission is provided by the Debt Management Division of the Oregon State Treasury. The commission consists of seven members: the state treasurer; representatives of cities, counties, school districts, and special districts; and two public members.

The Debt Management Division provides an informational manual, the "Oregon Bond Manual." It offers advisory services to issuers preparing to issue bonds.

H. Budgeting for Advance Refunding Bonds:

Oregon budget law (ORS 294.305 to 294.520) requires that estimates of receipts and disbursements, including advance refunding bonds, be disclosed in the district's budget document. As this procedure can be complicated, refer to your bond counsel, school attorney and your financial advisor for direction and advice.

Oregon Department of Education
700 Pringle Parkway SE
Salem, Oregon 97310-0290

School District No. ____________
County ____________

Capital Projects FUND

BUDGET DETAILED ESTIMATE SHEET

☒ Requirements ☒ Resources
July 1, 19____ to June 30, 19____

Page ____

ACCOUNT CODE AND DESCRIPTION	Actual Data for Prior Two Years		Budget This Year 19 - 19		Budget Next Year 19 - 19				
(1)	Second Year 19 - 19 (2)	First Year 19 - 19 (3)	Adopted (Amended) (4)	No. of Empl. (5)	Proposed (6)	No. of Empl. (7)	Approved (8)	Adopted (9)	No. of Empl. (10)
RESOURCES									
1510 Interest on Investments					$ 175,000		$ 175,000	$ 175,000	
5100 Long Term Debt Financing Sources									
5110 Bond Proceeds					7,000,000		7,000,000	7,000,000	
Total RESOURCES					$7,175,000		$7,175,000	$7,175,000	
REQUIREMENTS									
2530 Facilities Acquisition and Construction									
300 Purchased Services									
382 Legal					$ 30,000		$ 30,000	$ 30,000	
383 Architect/Engineer Services					125,000		125,000	125,000	
385 Bond Issue Expenditures					60,000		60,000	60,000	
Total PURCHASED SERVICES					215,000		215,000	215,000	
520 Buildings — Acquitions and Improvement					6,855,000		6,855,000	6,855,000	
690 Bond Discount					105,000		105,000	105,000	
Total EXPENDITURES					$7,175,000		$7,175,000	$7,175,000	

Form 581-3301 (Rev. 8/87)

Bond issue expenditures include printing costs, financial council, costs relating to obtaining a rating and other related issue costs.

Proceeds from the sale of bonds.

Forecasted interest earnings on investment of bond proceeds.

If the bonds sold at a premium, record the premium under revenue code 5120.

If the bonds sold at a discount, enter the full amount of the sale under revenue code 5110, and show the discount as an expense under expense object 690.

When the capital projects fund is closed, any remaining monies should be transferred to the Debt Service Fund to help retire any remaining debt.

Oregon Department of Education
700 Pringle Parkway SE
Salem, Oregon 97310-0290

School District No. ____________

County ____________

Debt Service FUND

BUDGET DETAILED ESTIMATE SHEET

☒ Requirements ☒ Resources

July 1, 19____ to June 30, 19____

Page ____

ACCOUNT CODE AND DESCRIPTION (1)	Actual Data for Prior Two Years		Budget This Year 19 - 19		Budget Next Year 19 - 19				
	Second Year 19 - 19 (2)	First Year 19 - 19 (3)	Adopted (Amended) (4)	No. of Empl. (5)	Proposed (6)	No. of Empl. (7)	Approved (8)	Adopted (9)	No. of Empl. (10)
RESOURCES									
1112 Prior Year Taxes	$ 3,472	$ 3,115	$ 2,875		$ 3,200		$ 3,200	$ 3,200	
1510 Interest on Investments	867	811	750		795		795	795	
5400 Beginning Cash Balance	13,220	12,560	12,000		11,150		11,150	11,150	
Total RESOURCES EXCEPT TAXES	17,559	16,486	15,625		15,145		15,145	15,145	
1111 Current Taxes	41,621	42,858							
Taxes Required to Balance			42,640		43,018		43,018	43,018	
Total DEBT SERVICE RESOURCES	$ 59,180	$ 59,344	$ 58,265		$ 58,163		$ 58,163	$ 58,163	
REQUIREMENTS									
5110 Debt Service									
610 Bond Principal Issue dated 3/2/90 $20,000 Issue dated 4/1/91 7,000	$ 23,000	$ 25,000	$ 25,000		$ 27,000		$ 27,000	$ 27,000	
620 Bond Interest Issue dated 3/2/90 $17,520 Issue dated 4/1/91 3,255	23,620	22,420	22,115		20,775		20,775	20,775	
Total EXPENDITURES	46,620	47,420	47,115		47,775		47,775	47,775	
7000 Unappropriated Ending Fund Balance For Interest Due in Second Ensuing Year									
820 Reserve for Next Year Issue dated 3/2/90 $ 8,760 (due 9/2/__) Issue dated 4/1/91 1,628 (due 10/1/__)	12,560	11,924	11,150		10,388		10,388	10,388	
Total DEBT SERVICE REQUIREMENTS	$ 59,180	$ 59,344	$ 58,265		$ 58,163		$ 58,163	$ 58,163	

Form 581-3301 (Rev. 8/87)

Do not combine separate sales. Budget different line items for each issue outstanding.

Estimate all resources except current year property taxes.

Budgeted requirements always equal budgeted resources.

Use appropriated ending fund balance for those payments that come due between July 1 and November 15 for which other revenue in debt service is not available.

Obtain exact amounts for principle and interest due from the bond amortization schedule in your audit report.

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APPENDICES

APPENDIX A

EXAMPLES OF REQUIRED DOCUMENTATION

SECTION II.J.(a) – LIST OF REQUIRED DOCUMENTS FOR AN ISSUE OF GENERAL OBLIGATION BONDS

INDEX TO TRANSCRIPT OF PROCEEDINGS RELATING TO THE AUTHORIZATION, ISSUANCE, SALE AND DELIVERY OF

__________ SCHOOL DISTRICT NO. ____
_________ COUNTY, OREGON

$__________
GENERAL OBLIGATION BONDS, SERIES 19__

1. Transcript Certification.

ELECTION PHASE

2. Excerpt of minutes of Board meeting at which resolution authorizing submittal of question regarding issuance of general obligation bonds to voters, setting forth ballot title and setting election date was adopted.
3. Copy of resolution authorizing submittal of question regarding issuance of general obligation bonds to voters, setting forth ballot title and setting election date.
4. Copy of notice of regular/special election.
5. Certificate of county elections officer stating when notice of election was received by that office.
6. Affidavit of publication of notice of bond election from local newspaper (if election held at the polls).
7. Certificate of elections officer regarding the mailing of ballots (if election was vote by mail).
8. Affidavit of publication of facsimile ballot. (Not required if vote by mail.)
9. Sample oath of county elections clerk.
10. Copy of ballot.
11. Abstract of election results as prepared by county elections officer.
12. Board's determination of election results.
13. County clerk's certificate of election.
14. County treasurer's certificate of outstanding indebtedness of the District.
15. County assessor's certificate of assessed value and real market value.
16. Incumbency Certificate of Board members.
17. Certificate of District's standardization rating.
18. Clerk's certificate as to grades taught in District.

19. Clerk's certificate of regular Board meetings; quorum compliance; ordinance enactment procedure compliance; and policy implemented in accordance with ORS 192.640.

20. (FOR MULTNOMAH COUNTY ONLY) Certificate of approval of the Tax Supervising & Conservation Commission.

BOND SALE PHASE

21. Excerpts of minutes of meeting at which resolution authorizing bond sale was adopted.

22. Copy of resolution authorizing the issuance and sale of bonds.

23. Copy of notice of bond sale.

24. Affidavit of publication of the notice of bond sale from the local newspaper.

25. Affidavit of publication of the notice of bond sale from the *Daily Journal of Commerce*.

26. Affidavit of publication of the notice of bond sale from *The Bond Buyer*, if applicable.

27. Excerpts of minutes of meeting at which bids were opened and resolution awarding sale of bonds adopted.

28. Copies of bids received.

29. Copy of resolution accepting bid of successful bidder and awarding sale of bonds.

(items 23 through 29 required for a competitive bid sale)

30. Purchase Contract.

31. Report of expert advisor evaluating the terms of the negotiated sale (completed and dated a date prior to the bond sale).

(items 30 and 31 required for a negotiated sale)

32. Affidavit of publication of notice of classifying resolution or ordinance.

33. Clerk's certificate regarding results of classifying resolution or ordinance notice.

34. State Treasurer's letter regarding District's compliance pursuant to ORS 287.040 and the rules of the Treasurer.

35. Signature and non-litigation certificate.

36. Tax certificate.

37. Certificate of District's compliance with SEC Rule 15c2-12(b)(1).

38. Internal Revenue Service Information Form 8038-G.

39. Purchaser's reoffering price certificate.

40. Receipt for bonds.

41. Receipt for bond proceeds.

42. DTC Letter of Representations (book-entry bonds, only)

43. Specimen bond.

44. Bond counsel's legal opinion.

45. Preliminary official statement.

46. Final official statement.

47. Bond insurance documentation, if applicable.

48. Closing memorandum.

[BOND COUNSEL MAY REQUIRE ADDITIONAL DOCUMENTATION.]

Moody's **Municipal** Credit Report

The Impact of Measure 5 on Local Credit Ratings in Oregon

October 11, 1991

Comment

Introduction: On November 6, 1990, Oregon citizens approved an amendment to the State Constitution (Measure 5) which limits the ability of state and local governments to levy property taxes, impose certain types of charges, and to issue certain types of debt. Moody's commented on the Measure in a Special Report dated November 8, 1990, at which time rating action was not taken. Since passage of Measure 5, the Oregon legislature has enacted legislation designed to clarify and implement the amendment. It also rewrote the legislation governing local debt issuance. This comment provides Moody's views on the implications of Measure 5 for local issuers of debt in light of these changes, and outlines concerns about the long-term credit implications of the measure for various types of governmental entities.

When analyzing a voter-imposed limit such as Measure 5, Moody's considers a variety of factors, including the legal interpretation of the new measure, management response to new constraints, and budget implications. Tax limitations typically fail to provide flexibility for the future, which may become more evident in times of economic distress. This is often exacerbated when property taxes are replaced by more economically sensitive revenues such as a sales tax, a replacement revenue under consideration in Oregon. Since the Oregon economy is currently expanding, the negative effects of Measure 5 may be minimized in the short-term.

general purpose governments: Measure 5 sets a maximum overall property tax rate of $10 per $1,000 of true market value for overlapping general purpose governments. If the tax rate of all overlapping units, which is derived by dividing the voted tax base (levy) by the market value, exceeds the limit, the rate for each taxing entity is reduced proportionately. The Oregon State Legislative Revenue Office estimates that state-wide, general purpose governments that are currently levying more than allowed under the tax limit could lose about $81 million in property tax revenue in 1991-92. Cities would lose the most (approximately $51 million or a 13% reduction).

Of the general purpose governments that Moody's rates, projected revenue losses associated with the reduction in tax levy range up to 25% of what the levy would have been prior to Measure 5.

Despite this potentially severe impact on local finances, our ratings on cities, counties, and other general governments are not considered to be at risk at this time. Financial operations are only one of several factors considered by Moody's when analyzing credit risk, and local entities are generally given the opportunity to adapt to the changing financial environment. Moody's will continue to monitor the impact of Measure 5, and will be requesting that issuers provide fiscal 1991-92 budgets and other information outlining plans to deal with the revenue losses. Depending on the impact on an individual issuer and related strategy, specific ratings may be placed under review.

school districts: The amendment also subjects school districts to a property tax cap of $15 per $1,000 full market value in 1991-92, declining in $2.50 increments to $5 in 1995-96. The Legislative Revenue Office estimates that the measure will reduce school property taxes by $203 million in the first year. Although Measure 5 requires the Oregon legislature to replace property tax revenues lost by school districts as a result of the measure, the obligation applies to the total amount lost by all school districts, not for each individual

district. The measure did not identify the source of replacement revenues. In response, the legislature passed bills which call for replacement of 85% of Measure 5 losses to all school districts in 1992, and create an equalization formula for distributing school aid. The credit outlook for school districts will depend on the impact of the equalization formula on individual district financial operations and their individual responses to any limitations. The long-term impact of the amendment on school districts could be significant, particularly since the state's obligation to replace the lost property tax revenues will end in 1995-96.

urban renewal districts:

Measure 5's direct impact on the ability of urban renewal districts to generate tax increment revenues will affect Moody's analysis of tax increment bonds. The Oregon Attorney General has opined that incremental revenues required for debt service are exempt from the tax rate limit because tax increment bonds are authorized by a section of the State Constitution; however, other incremental revenues are subject to Measure 5's limit. In addition to complicating the mechanism by which revenues allocated to an urban renewal area are generated, the potential reduction in incremental revenues places tax increment bond ratings at risk. The Legislative Revenue Office estimates that urban renewal districts could lose as much as $13 million in tax increment revenues, equal to almost one-third of the revenues that the districts would have received for uses other than bonded debt service. This will reduce their ability to finance improvements on a pay as you go basis. As a result, the eleven tax increment bonds rated by Moody's are being placed under review. In addition to the traditional analysis of tax base and incremental revenue growth, particular emphasis will be placed on each district's position relative to the tax rate limit and potential reductions in incremental revenue.

changes in local government borrowing:

In addition to defining the terms needed for implementation of Measure 5, the state legislature clarified some of the restrictions placed on local government borrowing. Unless authorized by a specific provision of the Constitution, general obligation bonds can be issued only for capital construction or improvements, and must be voter-approved. As a result, the unlimited tax associated with certain types of local government general obligation bonds, such as Bancroft bonds, is eliminated unless voter approval is obtained. Ratings for new non-voted Bancroft bonds are likely to be affected by the limited nature of the tax pledge. Further, the legislation interprets the definition of capital improvements to include equipment and land purchase, items which could have been excluded from debt financing under a strict interpretation of Measure 5. This broader definition provides more flexibility to local issuers.

moody's ratings:

Since passage of Measure 5, Moody's has rated the debt of 24 issuers, including 9 cities, 2 special districts, and 13 school districts. The ratings were undertaken in association with new bond sales, tax anticipation note sales, sales to the Oregon bond bank, and regular updating of outstanding ratings. There were no rating reductions and two ratings were revised upward. Overall, the maintenance of credit standing for the issuers reviewed since Measure 5 passed and, in particular, the rating upgrades reflect strong management response to revenue-raising limitations.

analysts:

Karen S. Krop
(212) 553-4860

Elizabeth Bauch
(415) 274-1735

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The information herein has been obtained from sources believed to be accurate and reliable, but because of the possibility of human and mechanical error, its accuracy or completeness is not guaranteed. Moody's ratings are opinions, not recommendations to buy or sell, and their accuracy is not guaranteed. A rating should be weighed solely as one factor in an investment decision, and you should make your own study and evaluation of any issuer whose securities or debt obligations you consider buying or selling. Most issuers of corporate bonds, municipal bonds and notes, preferred stock, and commercial paper which are rated by Moody's Investors Service, Inc. have, prior to receiving the rating, agreed to pay a fee to Moody's for the appraisal and rating services. The fee ranges from $1,000 to $125,000.

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Moody's **Municipal** Credit Report

Columbia County School District No. 502 (St. Helens), Oregon

October 9, 1991

New Issue Update **General Obligation/Special Tax**

sale: $7,280,000 General Obligation Bonds, Series 1991 B

date: Sold October 8

Moody's rating: A

opinion: Steady growth in assessed valuation, adequate finances with modest fund balance and low debt burden combine to provide upper medium grade rating. While the district's dominant taxpayer is vulnerable to the forest products industry, the area is gradually becoming more suburban in character because of its proximity to Portland. Although uncertainties remain over the method of state reimbursement under Measure 5's tax limitation, the district has taken budgetary steps to increase reserves to offset anticipated losses.

key facts:

Debt Burden:	2.9%
Median:	3.2%
Payout, Ten Years:	77.9%
Direct Net Debt as % of Overall Net Debt:	94.2%
General Obligation Debt Outstanding:	$15,785,000
Direct Net Debt:	$15,854,000
Average Annual Growth F.V., 1988-92:	8.9%
F.V. per Capita, 1992: [1]	$32,182
Per Capita Income, 1987,	
St. Helens (City):	$9,172
Columbia County:	$10,532
State:	$11,045
Unreserved General Fund Balance as % of General Fund Revenues, FY 1990:	4.2%
Debt Service as % of Expenditures:	11.2%
1991-92 Overlapping Tax Rate, School Districts:	$18.45
1991-92 Tax Rate Limit:	$15.00
1992-93 Tax Rate Limit:	$12.50
Major Taxpayer, Boise Cascade, as % of A.V., 1991:	35.7%
Moody's Rating, Boise Cascade:	**Baa2**

[1] Based on district estimated 1991 population of 18,200

update: Since our last report, dated July 18, 1991, there has been no substantive change in credit quality.

analysis: The St. Helens School District is located on the Columbia River, approximately 30 miles from Portland. The district's relatively close proximity to Portland has resulted in the area gradually transforming from a rural community to one more suburban in character. The City of St. Helens, the county seat of Columbia County, is included in the district. Forest products and government employment predominate in the district. Boise Cascade Corporation, a major employer, accounts for more than one-third of the tax

Columbia County School District No. 502 (St. Helens), Oregon

base. A year ago the company increased capital spending at its facilities in the district. Although near term earnings are expected to remain cyclically weak, long-term growth of paper products and veneer finishing is expected to benefit from future demand for office supplies and building materials. Other major employers such as Armstrong World Industries, Inc., producer of insulation and a technology manufacturer, have recently relocated within the district.

The current offering will be used to finance the construction of a new elementary school. The authorization was approved by voters in June. The district is currently considering seeking voter approval for general obligation bonds to fund the installation of fire sprinklers in all schools. The estimated cost is $600,000. The proposed bond sale would be scheduled for the Spring of 1992. The debt burden is expected to remain moderate, supported by a growing tax base. The payout is rapid with the debt requirements relatively level, and then rapidly declining in 2001 through maturity.

District finances remain satisfactory with the estimated fiscal year-end 1991 unreserved designated General Fund balance at approximately $1.1 million or 9.3% of fiscal 1991 Fund revenues. The increase in the balance from the prior year reflects higher state aid to support enrollment growth and interest income on short-term borrowings. The General Fund balance will be used in fiscal 1991-92 to offset the expected loss of approximately $565,000 under Measure 5. To maintain adequate finances, the district is utilizing conservative management practices such as reserving the unappropriated General Fund balance for expenditures in the following fiscal year. Upon completion of the new elementary school, the district plans to close the old school and sell the site. The proceeds from the sale would be used to reduce debt service or call outstanding bonds. In addition, cutbacks were realized in 1991 in anticipation of constraints imposed by Measure 5; a significant contingency has been established. The budget for 1991-92 reflects the district's continued spending restraints and development of contingency as unappropriated reserves available in subsequent fiscal years to meet the uncertainties of state funding under Measure 5. The district also received voter approval to increase its tax rate for general fund operations which also provides satisfactory funding levels without the need for special levies.

Columbia County School District No. 502
(St. Helens), Oregon

details of bond sale:

Legal Name of Issuer: St. Helens School District No. 502, Columbia County, Oregon.

Security: G.O., ULT.

Date of Bonds: October 1, 1991.

Denomination: $5,000 or integral multiples thereof.

Annual Maturities 1/1 ($ 000)

Year	Amount	Year	Amount
1994	$385	2001	$580
1995	405	2002	615
1996	430	2003	655
1997	455	2004	700
1998	485	2005	745
1999	515	2006	765
2000	545		

Average Life of Issue: 9.82 years.

Interest Payable: Semiannually, beginning July 1, 1992.

Call Features: Beginning January 1, 1999, at par.

Registrar: Cede & Co., as nominee for The Depository Trust Company, New York.

Paying Agent: First Interstate Bank of Oregon, N.A., Portland.

Delivery: On or about October 23.

Bond Counsel: Rankin, Mersereau & Shannon, Portland.

Financial Officer: Margaret Gaddis, Deputy Clerk.

Advisors/Managing Underwriters: Seattle-Northwest Securities Corporation, Portland.

Auditor: Pauly, Rogers and Co., P.C., Tigard (FY 1990).

rating history:

January 1980:	**A**
September 1975:	**(1) Withdrawn**
July 1963:	**Baa**

(1) Insufficient information.

analyst: Diane R. Gatewood
(212) 553-0849

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The information herein has been obtained from sources believed to be accurate and reliable, but because of the possibility of human and mechanical error, its accuracy or completeness is not guaranteed. Moody's ratings are opinions, not recommendations to buy or sell, and their accuracy is not guaranteed. A rating should be weighed solely as one factor in an investment decision, and you should make your own study and evaluation of any issuer whose securities or debt obligations you consider buying or selling. Most issuers of corporate bonds, municipal bonds and notes, preferred stock, and commercial paper which are rated by Moody's Investors Service, Inc. have, prior to receiving the rating, agreed to pay a fee to Moody's for the appraisal and rating services. The fee ranges from $1,000 to $125,000.

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the undesignated fund balance to $3.3 million, or 7% of the year's estimated $47.3 million budget. The debt burden is low at 1.2% of market valuation, and annual debt service requirements are a manageable 4%-5% of operating expenses. Future debt needs are minimal due to annual facility maintenance funded by operations.

NORTH CLACKAMAS SCHOOL DISTRICT NO. 12, OREGON

S&P Contact: Robert Rifkin, San Francisco (415) 765-5000

RATING ASSIGNED

$22.1 mil. G.O. bnds. ser. 1991	A+

RATING AFFIRMED

$95,000 outstanding G.O. bnds	A+

OUTLOOK: STABLE

North Clackamas School District No. 12, Ore.'s rating reflects the district's low debt burden, its location within a growing economic area, and adequate financial performance. The district, with a population of 75,000, is located 12 miles southeast of downtown Portland, in northern Clackamas County. It is 40 square miles and includes the towns of Milwaukie and Happy Valley, and unincorporated areas. These bonds are raising money for new construction and various other capital improvements. Debt ratios are low at $590 per capita and 1.6% of true value. Assessed values in 1991 increased 6.7%, double the rate of growth achieved in 1990. This growth rate is expected to increase again in 1992. The top 10 taxpayers comprise a low 11.5% of total assessed value. Continued development along the Interstate 205 corridor has fueled growth in the eastern half of the district. Happy Valley, which represents this area, has the highest household median income in the state at $38,410. Employment in the district is balanced among the manufacturing, trade and service sectors. Fred Meyer and Safeway Corp. have major distribution centers in the district. Also located in the district is Precision Castparts, the county's largest manufacturing employer. New legislation arising from Measure 5 will result in lower property tax rates and probably lower tax revenues for the district. Although the state will provide replacement revenues, specific amounts are unclear. The district has prepared for these uncertainties by cutting admininistrative and instructional expenses. Fiscal 1990's general fund balance was an adequate $1.4 million or 2.6% of budget. This is expected to increase to $2 million at the close of fiscal 1991.

OAK PARK, MICHIGAN

S&P Contact: Robert Durante (212) 208-1963

OUTLOOK REVISED

	TO	FROM
Status	Neg.	Stable

RATING ASSIGNED

$4 mil. unltd. G.O. bnds.	A

RATINGS AFFIRMED

$13.1 mil. parity debt	A
$2.2 mil. MBIA-ins. debt	AAA
$5 mil. AMBAC-ins. debt	AAA

OUTLOOK: NEGATIVE

Oak Park, Mich.'s 'A' rating reflects an established inner-surburban city, its somewhat favorable location in the Detroit metropolitan statistical area, average income income levels, a moderately high debt burden, and satisfactory financial operations. The city is located in southeastern Oakland County, adjacent to the city of Detroit. The recent completion of Interstate 696 has facilitated redevelopment within the city. New construction in the city is limited since the city is nearly fully developed. The state equalized valuation for fiscal 1992 will be frozen at 1991 levels with the exception of new construction. Since the city is operating at its tax rate limits, the city will have limited property tax flexibility. In addition, anticipated reductions in its state-shared revenues for fiscal 1992 could further impact its financial operations. Historically, the city has operated at near break-even level and has maintained a satisfactory financial position. The general fund balance position for fiscal 1990 is $1.3 million, or 12.1% of operating expenditures. For fiscal 1991, the city is expecting at least a break-even year for the general fund. The outlook revision reflects Oak Park's future budgetary pressures from operating at its property tax limit, the effect of the state equalization freeze, and the anticipated reduction of state-shared revenues.

OUACHITA PARISH HOSPITAL SERVICE DISTRICT NO. 1, LOUISIANA GLENWOOD REGIONAL MEDICAL CENTER

S&P Contact: Elie Radinsky (212) 208-8910

RATING ASSIGNED

$34.965 mil. hosp. rev. bnds. ser. 1991	A-

OUTLOOK: STABLE

Ouachita Hospital Service District No. 1, La.'s hospital revenue bonds are issued on behalf of Glenwood Regional Medical Center (GRMC) located in West Monroe, La. Credit strengths include strong liquidity, solid historical financial performance, and additional medical services. A higher rating is precluded due to declining admissions, increased competition, and lack of physician loyalty, coupled with a high concentration of admissions among few physicians. Proceeds will be used to refund unrated series 1984B bonds, purchase equipment, and reimburse GRMC for prior capital expenditures. GRMC is a 210-licensed-bed general acute-care facility. New services offered within the last four years include cardiac catheterization, magnetic resonance imaging, and radiation therapy. Competition is fierce with a larger tertiary (having over 50% market share) and a for-profit hospital, all with overlapping medical staffs, located in GRMC's primary service area. Dispersion ▶

SECTION II.J.(d) - LIST OF REQUIRED DOCUMENTS FOR AN ISSUE OF BOND ANTICIPATION NOTES

INDEX TO TRANSCRIPT OF PROCEEDINGS RELATING TO THE AUTHORIZATION, ISSUANCE, SALE AND DELIVERY OF

__________ SCHOOL DISTRICT NO. ___
_________ COUNTY, OREGON

$__________
GENERAL OBLIGATION BOND ANTICIPATION NOTES
SERIES 19__

1. Transcript Certification.

ELECTION PHASE

2. Excerpt of minutes of Board meeting at which resolution authorizing submittal of question regarding issuance of general obligation bonds to voters, setting forth ballot title and setting election date was adopted.

3. Copy of resolution authorizing submittal of question regarding issuance of general obligation bonds to voters, setting forth ballot title and setting election date.

4. Copy of notice of regular/special election.

5. Certificate of county elections officer stating when notice of election was received by that office.

6. Affidavit of publication of notice of bond election from local newspaper (if election was vote at polls).

7. Certificate of elections officer regarding mailing ballots (if election was vote by mail).

8. Affidavit of publication of facsimile ballot. (Not required if vote by mail.)

9. Sample oath of county elections clerk.

10. Copy of ballot.

11. Abstract of election results as prepared by county elections officer.

12. Board's determination of election results.

13. County clerk's certificate of election.

14. County treasurer's certificate of outstanding indebtedness of the District.

15. County assessor's certificate of assessed value and real market value.

16. Incumbency Certificate of Board members.

17. Certificate of District's standardization rating.

18. Clerk's certificate as to grades taught in District.

19. Clerk's certificate of regular Board meetings; quorum compliance; ordinance enactment procedure compliance; and policy implemented in accordance with ORS 192.640.

INTERIM FINANCING.

20. Minutes of Board meeting at which the resolution authorizing issuance of bond anticipation notes was adopted.

21. Resolution authorizing issuance of bond anticipation notes.

22. Copy of notice of note sale.

23. Affidavit of publication of the notice of note sale from the local newspaper.

24. Affidavit of publication of the notice of note sale from the Daily Journal of Commerce.

25. Affidavit of publication of the notice of note sale from The Bond Buyer, if applicable.

26. Excerpts of minutes of meeting at which bids were opened and resolution awarding sale of notes adopted.

27. Copies of bids received.

28. Copy of resolution accepting bid of successful bidder and awarding sale of notes.

(items 21 through 28 required for a competitive bid sale)

29. Note Purchase Contract.

30. Report of expert advisor evaluating the terms of the negotiated sale (completed and dated a date prior to the note sale).

(items 29 and 30 required for a negotiated sale)

31. Affidavit of publication of notice of classifying resolution or ordinance.

32. Clerk's certificate regarding results of classifying resolution or ordinance notice.

33. State Treasurer's letter regarding District's compliance pursuant to ORS 287.040 and the rules of the State Treasurer.

34. Specimen note.

35. Signature and non-litigation certificate.

36. Tax certificate.

37. Purchaser's reoffering price certificate.

38. Internal Revenue Service Information Form 8038-G.

39. Receipt for note proceeds.

40. Receipt for notes.

41. DTC Letter of Representations (book-entry notes only)

42. Legal opinion.

43. Disclosure documents, if required.

44. Bond insurance documentation, if applicable.

45. Closing memorandum.

[BOND COUNSEL MAY REQUIRE ADDITIONAL DOCUMENTATION.]

SECTION III.J.(a) - LIST OF REQUIRED DOCUMENTS FOR A LEASE-PURCHASE/COPS FINANCING

LIST OF DOCUMENTS RELATING TO THE AUTHORIZATION, ISSUANCE, NEGOTIATED SALE AND DELIVERY OF

_______________ SCHOOL DISTRICT NO. ___
____________ COUNTY, OREGON

$________
CERTIFICATES OF PARTICIPATION
SERIES 1991

Evidencing Undivided Proportionate Interests
in Certain Lease Payments to be made under a

LEASE-PURCHASE AGREEMENT
by and between

___________ SCHOOL DISTRICT NO. ___, as Lessee
and
_______________________, as Lessor

Doc.
Document Name

1. Transcript certification.

BASIC DOCUMENTS:

2. Lease-Purchase Agreement.

3. Escrow Agreement.

4. Purchase Agreement.

5. Specimen certificate.

6. DTC Letter of Representations (book-entry certificates only).

DISTRICT PROCEEDINGS AND DOCUMENTS:

7. Certificate of regular District Board meetings; quorum compliance; ordinance enactment procedure compliance; and policy implements in accordance with ORS 192.640.

8. Excerpt of minutes of meeting at which the resolution authorizing the issuance and negotiated sale of the Certificate was adopted.

9. Resolution authorizing the issuance and negotiated sale of the Certificates.

10. General Certificate

11. Incumbency Certificate.

12. Tax certificate.

13. Internal Revenue Service Information Form 8038-G.

14. Certificate re District's compliance with SEC Rule 15c2-12(b)(1).

15. State Treasurer's letter stating the District has complied with ORS 287.040 and the rules of the Treasurer.

PURCHASER'S DOCUMENTS:

16. Reoffering price certificate.

17. Receipt for Certificates.

ESCROW AGENT, REGISTRAR AND PAYING AGENT DOCUMENTS:

18. Receipt for Certificates proceeds.

19. Certificate of Escrow Agent pursuant to the Purchase Agreement.

20. Certificate Registrar and Paying Agent Agreement

FINANCIAL ADVISOR'S DOCUMENTS:

21. Preliminary official statement.

22. Final official statement.

23. Certificate regarding official statement.

OPINIONS AND CLOSING MEMORANDA:

24. Opinion of Special Counsel.

25. Registration and Disclosure Opinion of Special Counsel.

26. Memorandum of Certificate Delivery.

27. Closing Memorandum.

[SPECIAL COUNSEL MAY REQUIRE ADDITIONAL DOCUMENTATION.]

SECTION IV.H.(a) - LIST OF REQUIRED DOCUMENTS FOR AN ISSUE OF TAX (AND REVENUE) ANTICIPATION NOTES

INDEX TO TRANSCRIPT OF PROCEEDINGS
RELATING TO THE
AUTHORIZATION, ISSUANCE, SALE AND DELIVERY OF

_____ SCHOOL DISTRICT NO. __
_________ COUNTY, OREGON

$________

TAX (AND REVENUE) ANTICIPATION NOTES
SERIES 19__

1. Transcript certification.

2. Minutes of Board meeting at which the resolution authorizing the issuance of tax anticipation notes was adopted.

3. Resolution authorizing the issuance of tax anticipation notes.

4. Minutes of Board meeting at which budget is adopted and tax levy is certified to __________ County.

5. Resolution adopting the budget and certifying the tax levy.

6. Excerpts of the budget showing the levy and appropriate entries for interest and principal payments on the notes.

7. Certificate stating that the amount of borrowing will not exceed 80 percent of the ad valorem taxes previously levied and in the process of collection nor 80 percent of any other anticipated revenues.

8. Affidavit of publication of notice of classifying resolution or ordinance.

9. Clerk's certificate regarding results of classifying resolution or ordinance notice.

10. Certificate of Board recording officer stating the regular meeting date of the Board and the policy adopted to comply with ORS 192.640.

11. State Treasurer's letter of compliance pursuant to ORS 287.040 and the rules of the State Treasurer.

12. Incumbency certificate.

13. Note purchase agreement.

14. Specimen note.

15. DTC Letter of Representations (book-entry notes only).

16. Signature and non-litigation certificate.

17. Tax certificate.

18. Purchaser's reoffering price certificate.

19. Internal Revenue Service Information Form 8038-G.

20. Receipt for note proceeds.

21. Receipt for notes.

22. Legal opinion.

23. Certificate as to Official Statement.

24. Preliminary/Final Official Statements.

25. Closing memorandum.

[BOND COUNSEL MAY REQUIRE ADDITIONAL DOCUMENTATION.]

SECTION IV.H.(b) - SAMPLE PROJECTED CASH FLOW SUMMARY

$____________

________________________ School District
Tax (and Revenue) Anticipation Notes, Series 1992

	Estimated Expenditures	Estimated Receipts[1]	Estimated Investment Earnings[2]	Cumulative Surplus or Deficit[3]
Beginning Cash Balance:				$
July, 1992[4]				
August, 1992				
September, 1992				
October, 1992				
November, 1992				
December, 1992				
January, 1993				
February, 1993				
March, 1993				
April, 1993				
May, 1993				
June, 1993				
Maximum Cumulative Cash Flow Deficit:				$
Reasonable Cash Balance:				$____________
Total:				$

1. All amounts (other than the proceeds of the Notes) which will be available for the payment of expenditures.

2. Investment earnings are amounts received from (a) the investment of the proceeds of the Notes and (b) the investment of the beginning cash balance or any cumulative surplus.

3. The amounts shown in this column for any month represent the sum of the amount shown in this column for the prior month (or the beginning cash balance in the case of the first month) plus the estimated receipts and investment earnings for the current month and minus the estimated expenditures for the current month.

4. The amounts shown in the columns for each month are calculated as of the ____ day of each month.

SECTION V.H.(2) - LIST OF REQUIRED DOCUMENTS FOR AN ISSUE OF REFUNDING BONDS

INDEX TO TRANSCRIPT OF PROCEEDINGS RELATING TO THE AUTHORIZATION, ISSUANCE, SALE AND DELIVERY OF

____________ SCHOOL DISTRICT NO. ____
________ COUNTY, OREGON

$________
CURRENT REFUNDING GENERAL OBLIGATION BONDS
SERIES 19__

1. Transcript certification.

2. Incumbency Certificate of Board members.

3. Clerk's certificate of regular Board meetings; quorum compliance; ordinance enactment procedure compliance; and policy implemented in accordance with ORS 192.640.

4. Excerpts of minutes of meeting at which resolution authorizing bond sale was adopted.

5. Copy of resolution authorizing the issuance and sale of bonds.

6. Copy of notice of bond sale.

7. Affidavit of publication of the notice of bond sale from the local newspaper.

8. Affidavit of publication of the notice of bond sale from the Daily Journal of Commerce.

9. Affidavit of publication of the notice of bond sale from The Bond Buyer, if applicable.

10. Excerpts of minutes of meeting at which bids were opened and resolution awarding sale of bonds adopted.

11. Copies of bids received.

12. Copy of resolution accepting bid of successful bidder and awarding sale of bonds.

(items 6 through 12 required for a competitive bid sale)

13. Purchase Contract.

14. Report of expert advisor evaluating the terms of the negotiated sale (completed and dated a date prior to the bond sale).

(items 13 and 14 required for a negotiated sale)

15. Affidavit of publication of notice of classifying resolution or ordinance.

16. Clerk's certificate regarding results of classifying resolution or ordinance notice.

17. State Treasurer's letter regarding District's compliance pursuant to ORS 287.040 and the rules of the Treasurer.

18. Signature and non-litigation certificate.

19. Tax certificate.

20. Certificate of District's compliance with SEC Rule 15c2-12(b)(1).

21. Internal Revenue Service Information Form 8038-G.

22. Purchaser's reoffering price certificate.

23. Receipt for bonds.

24. Receipt for bond proceeds.

25. DTC Letter of Representations (bood-entry bonds only).

26. Specimen bond.

27. Bond counsel's legal opinion.

28. Preliminary official statement.

29. Final official statement.

30. Closing memorandum.

[BOND COUNSEL MAY REQUIRE ADDITIONAL DOCUMENTATION.]

INDEX TO TRANSCRIPT OF PROCEEDINGS RELATING TO THE AUTHORIZATION, ISSUANCE, SALE AND DELIVERY OF

____________ SCHOOL DISTRICT NO. ____
________ COUNTY, OREGON

$________
ADVANCE REFUNDING GENERAL OBLIGATION BONDS
SERIES 19__

(NEGOTIATED)

1. Transcript certification.

BASIC DOCUMENTS:

2. Resolution authorizing issuance of advance refunding bonds.

3. Bond Purchase Agreement.

4. Preliminary Official Statement.

5. Final Official Statement.

6. State Treasurer's preliminary approval of refunding.

7. State Treasurer's final approval of refunding.

8. Rating confirmations, if applicable.

9. DTC Letter of Representations (bood-entry bonds only).

10. Specimen bond.

DISTRICT PROCEEDINGS:

11. Incumbency Certificate of Board members.

12. Clerk's certificate of regular Board meetings; quorum compliance; ordinance enactment procedure compliance; and policy implemented in accordance with ORS 192.640.

13. Minutes (or excerpt) of Board meeting at which resolution authorizing submission of advance refunding plan to the State Treasurer was adopted.

14. Resolution authorizing submission of advance refunding plan to the State Treasurer.

15. Minutes (or excerpt) of Board meeting at which resolution authorizing issuance of advance refunding bonds was adopted.

16. State Treasurer's letter regarding District's compliance pursuant to ORS 287.040 and the rules of the Treasurer.

17. Signature and non-litigation certificate.

18. Tax certificate.

19. Certificate of District's compliance with SEC Rule 15c2-12(b)(1).

20. Internal Revenue Service Information Form 8038-G.

PURCHASER'S DOCUMENTS:

21. Purchaser's reoffering price certificate.

22. Receipt for bonds.

FINANCIAL ADVISOR'S DOCUMENTS:

23. Financial Advisor's approval of refunding.

24. Preliminary Advance Refunding Plan.

25. Final Advance Refunding Plan.

26. Auditor's verification.

ESCROW AGENT'S DOCUMENTS:

27. Evidence of authority of Escrow Agent.

28. Escrow Deposit Agreement.

29. Escrow Agent's receipt for bond proceeds.

30. SLGS subscriptions.

OPINIONS AND MISCELLANEOUS:

31. Bond counsel's legal opinion.

32. Additional opinion(s) required by the Bond Purchase Agreement, if any.

33. Closing memorandum.

[BOND COUNSEL MAY REQUIRE ADDITIONAL DOCUMENTATION.]

SECTION IX.A - DEFINITIONS OF BOND RATINGS

Aaa

Bonds which are rated **Aaa** are judged to be of the best quality. They carry the smallest degree of investment risk and are generally referred to as "gilt edge." Interest payments are protected by a large or by an exceptionally stable margin and principal is secure. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues.

Aa

Bonds which are rated **Aa** are judged to be of high quality by all standards. Together with the **Aaa** group they comprise what are generally known as high grade bonds. They are rated lower than the best bonds because margins of protection may not be as large as in **Aaa** securities or fluctuation of protective elements may be of greater amplitude or there may be other elements present which make the long term risks appear somewhat larger than in **Aaa** securities.

A

Bonds which are rated **A** possess many favorable investment attributes and are to be considered as upper medium grade obligations. Factors giving security to principal and interest are considered adequate but elements may be present which suggest a susceptibility to impairment some time in the future.

Baa

Bonds which are rated **Baa** are judged to have speculative elements; their future cannot be considered as well assured. Often the protection of interest and principal payments may be very moderate, and thereby not well safeguarded during both good and bad times over the future. Uncertainty of position characterizes bonds in this class.

Ba

Bonds which are rated **Ba** are judged to have speculative elements; their future cannot be considered as well assured. Often the protection of interest and principal payments may be very moderate, and thereby not well safeguarded during both good and bad times over the future. Uncertainty of position characterizes bonds in this class.

B

Bonds which are rated **B** generally lack characteristics of the desirable investment. Assurance of interest and principal payments or maintenance of other terms of the contract over any long period of time may be small.

Caa

Bonds which are rated **Caa** are of poor standing. Such issues may be in default or there may be present elements of danger with respect to principal or interest.

Ca

Bonds which are rated **Ca** represent obligations which are speculative in a high degree. Such issues are often in default or have other marked shortcomings.

C

Bonds which are rated **C** are the lowest rated class of bonds, and issues so rated can be regarded as having extremely poor prospects of ever attaining any real investment standing.

Bonds for which the security depends upon the completion of some act or the fulfillment of some condition are rated conditionally. These are bonds secured by (a) earnings of projects under construction, (b) earnings of projects unseasoned in operating experience, (c) rentals which begin when facilities are completed, or (d) payments to which some other limiting condition attaches. Parenthetical rating denotes probable credit stature upon completion of construction or elimination of basis of condition.

Note: Moody's applies numerical modifiers, 1, 2 and 3 in each generic rating classification from Aa through B in its corporate bond rating system. The modifier 1 indicates that the security ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates that the issue ranks in the lower end of its generic rating category.

DEFINITIONS OF SHORT-TERM LOAN RATINGS

Issues or the features associated with **MIG** or **VMIG** ratings are identified by date of issue, date of maturity or maturities or rating expiration date and description to distinguish each rating from other ratings. Each rating designation is unique with no implication as to any other similar issue of the same obligor. **MIG** ratings terminate at the retirement of the obligation while **VMIG** rating expiration will be a function of each issue's specific structural or credit features.

MIG 1/VMIG 1

This designation denotes best quality. There is present strong protection by established cash flows, superior liquidity support or demonstrated broad-based access to the market for refinancing.

MIG 2/VMIG 2

This designation denotes high quality. Margins of protection are ample although not so large as in the preceding group.

MIG 3/VMIG 3

This designation denotes favorable quality. All security elements are accounted for but there is lacking the undeniable strength of the preceding grades. Liquidity and cash flow protection may be narrow and market access for refinancing is likely to be less well established.

MIG 4/VMIG 4

This designation denotes adequate quality. Protection commonly regarded as required of an investment security is present and although not distinctly or predominantly speculative, there is specific risk.

Source: Packard Press Financial Publications Division

APPENDIX B

GLOSSARY OF PUBLIC FINANCE TERMS

Accrued Interest – Interest earned on a security in the period since the later of the last interest payment date or the date of an issue from which the bondholder is entitled to receive interest.

Ad Valorem Tax – A tax based on the value (or assessed value) of property.

Advance Refunding – The refinancing of an outstanding issue by a new issue, more than 90 days prior to the date on which the outstanding issue can be redeemed. The proceeds of the new issue are deposited in an escrow that pays the debt service of the issue being refunded. See Defeasance.

Agent – A person who acts on behalf of another (the principal) and is subject to his control and authority.

AMT – Alternative minimum tax established in Tax Reform Act of 1986 for both individuals and corporations and applicable to income of certain tax exempt bonds, for the purpose of assuring that all persons and corporations with substantial income will pay some amount of federal income tax.

Annual Return – The total return of a security over a specified period, expressed as an annual rate of interest.

Arbitrage – The difference between interest cost and interest earnings. Because of tax–exempt status, municipal bonds normally sell at rates lower than taxable issues. Investment of proceeds is regulated by Section 103 of the Internal Revenue Code.

Arbitrage Bonds – Obligations issued by a state or political subdivision in contravention of Section 148 of the Internal Revenue Code, the effect of which is to render such bonds taxable.

Arbitrage Certificate – See Non–Arbitrage Certificate.

Assessed Valuation – The valuation placed on property for purposes of taxation.

Average Life – The weighted average maturity of an issue.

Basis Point – One one–hundredth of a percent (.01%), used to express yield differentials.

Bearer Bond – A bond that has no identification as to owner and is presumed to be owned by its holder. Holder collects interest by presenting one of the detachable interest coupons to the issuer's agent or bank.

Bid – A proposal to purchase an issue of municipal securities offered for sale either in a competitive or negotiated offering. The bid will specify the interest rates for each maturity and the purchase price which is usually stated in terms of par, e.g., "par plus a premium" or "par minus a discount."

Bid Discount – The difference between the bid price and par value, when bid price is less than par value.

Bond – An interest–bearing promise to pay a specified sum of money –– the principal amount –– due on a specific date to the holder or owner. The terms "Bond" and "Note" are often used interchangeably. See also "current coupon bonds" and "zero coupon bonds."

Bond Resolution – Resolution passed by legislative body authorizing the issuance of securities and approving the Official Statement. The resolution also contains the covenants and restrictions of the issue. For a competitive sale, the Bond Resolution also includes the Notice of Sale.

BEST COPY AVAILABLE

Bond Register – The listing of the names and addresses of the current registered owners of the securities, as maintained by the trustee or bond registrar.

Bond Registrar – The institution (usually a bank or trust company) identified on the security as the agent designated by the issuer to maintain the bond register and make payment of principal and interest. See Paying Agent and Transfer Agent.

Bond Rating – Designations assigned by credit rating agencies to give relative indications of credit quality.

Bond Bank – Investment vehicle whereby local government debt securities are purchased and pooled into larger offerings which are then sold to provide money for projects the localities are committed to financing. The purpose is to provide better market access for small, lesser-rated issuers.

Bond Counsel's Opinion – Opinion which usually addresses (1) whether the bonds are valid and binding obligations of the issuer; (2) the source of payment or security for the bonds; and (3) whether and to what extent interest on the bonds is excluded from gross income of an owner for Federal income tax purposes and exempt from taxes, if any, imposed by the state of the issuer.

Bond Purchase Agreement (BPA) – An agreement between an issuer and the Underwriter of the bonds, setting forth the terms of sale (i.e., price of securities, any premium or discount, interest rates), conditions to closing, restrictions on the liability of the issuer and any indemnity provisions. In a competitive sale the BPA is replaced by the Notice of Sale and the bid form.

Bond Anticipation Note (BAN) – Notes issued by public agencies to obtain temporary financing for Projects that will eventually be financed on a long–term basis (and the BAN repaid) through the sale of bonds.

Bonded Debt – The portion of an issuer's total indebtedness represented by outstanding bonds.

Bondholder – Any person who shall be the bearer of any outstanding bond registered to the bearer or not registered. Also means the registered owner of a registered bond.

Book–Entry–Only Bonds – Bonds that are accounted for through a centralized system for the holding and accounting of ownership and transfer of ownership of securities. In book–entry–only issues, physical bonds are not printed.

Broker – A person or firm acting as an agent for buyers and sellers, charging a commission for services rendered.

Call – Exercise of the right of the issuer to prepay its debt prior to the specified maturity date and demand surrender of its bonds for redemption, refunding or sinking fund purposes on a specific date at a specified price at or above par.

Call Premium – The amount the issuer has promised to pay in excess of par value when bonds are redeemed in advance of their maturity date.

Call Price – The specified price, at or above par, to be paid by the issuer upon a redemption of bonds prior to maturity.

Callable Bonds – Bonds that are redeemable by the issuer prior to the specified maturity date at a specified price at or above par. May be accomplished by refunding.

Capital Improvement (Projects) Fund – A fund established by an issuer into which proceeds of a bond issue are deposited for payment of capital construction or capital improvement costs. See Construction Fund.

Capital Lease – Reference to a type of lease which for accounting and financial reporting purposes is characterized by a term that spans all or a major portion (75 percent or more) of the useful life of the leased property.

Capitalized Interest – A portion of the proceeds of an issue which will be used to pay interest on the bonds for a specific period of time (usually the period of construction of the Project financed by the issue).

Certificate of Participation (COP) Lease – Reference to a type of tax–exempt lease the lessor's interest in which is divided into fractional interests or shares represented by certificates of participation that are marketed to investors.

Closing Date – The date on which all documents relating to a new issue of securities must be finalized and signed. After an issue is declared to be closed, bond counsel will authorize the exchange of money and securities. See Delivery Date.

Competitive Sale – A sale of municipal securities by an issuer in which underwriters or syndicates of underwriters submit sealed bids to purchase the securities. This is contrasted with a negotiated underwriting.

Construction Fund – A fund into which proceeds of an issue are deposited for payment of Project costs. See Capital Improvement (Projects) Fund.

Costs of Issuance – Items of expense paid by the issuer directly related to the authorization, sale and issuance of bonds or notes, which may include professional consultants' fees, legal fees and charges, trustee's fees, printing costs, bond or note discounts, costs of credit ratings, fees and charges for execution, transportation and safekeeping of bonds or notes, and filing and recording fees.

Coupon – The part of a bond that denotes the rate of interest due and on what date and where the payment is to be made. Coupons are generally payable semiannually; coupon is also used to refer to the interest rate of a bond.

Covenants – Agreements made by the issuer regarding repayment, security, pledges, and the use of funds.

Cover Bid – The second best bid received at a competitive sale.

Credit Enhancement – A credit support purchased by the issuer to raise the credit rating on a debt issue. The most common credit enhancements consist of municipal bond insurance policies, direct or standby letters of credit.

Current Coupon Bonds – Bonds that pay interest, at a fixed interest rate, every six months until they are redeemed or mature.

CUSIP – The Committee on Uniform Security Identification Procedures, which was established under the auspices of the American Bankers Association to develop a uniform method of identifying municipal, United States government, and corporate securities. CUSIP numbers are assigned to all new debt issues.

Dated Date – The date of an issue from which the bondholder is entitled to receive interest, even though the bonds may actually be delivered at some other date.

Debt Service – The total payments of principal and interest required in a given time period.

Debt Service Fund – The fund established by an issuer for payment of debt service on bonds.

Debt Limit – The statutory or constitutional limitation on the principal amount of debt that an issuer may legally incur or hold outstanding.

Default – Failure to make prompt payment of interest or principal due and owing on a bond or otherwise comply with other covenants in financing documents.

Defeasance – To set aside sufficient money to retire outstanding debt when due. A full "legal" defeasance results in release from covenants and contractual obligations contained in the bond documents. An "enhanced" defeasance provides for the retirement of all outstanding debt of an issue but does not legally release all covenants.

Delivery Date – The date upon which the issue is delivered to and paid for by the original purchaser. See Closing Date.

Denomination – The face amount or par value of a particular note or bond that the issuer promises to pay on the maturity date. Most municipal bonds are issued in a minimum denomination of $5,000, although a few older issues are available in $1,000 denominations.

Direct and Overlapping Debt Statement – A list of all outstanding debt issues covering any portion of an issuer's jurisdiction. Self–supporting debt is subtracted to show net debt.

Discount Bonds – Those bonds selling below par.

Discount – The amount (stated in dollars or a percent) by which the selling or purchase price of a security is less than the principal amount or par value.

Double Exemption – Securities that are exempt from state as well as federal income taxes are said to have double exemption.

Downgrade – The changing of a rating by a Rating Agency to a lower (less credit–worthy) rating.

DTC (Depository Trust Company) – A central securities certificate depository through which members effect security deliveries among themselves via computerized bookkeeping entries.

Due Diligence – Investigation conducted by underwriters and their counsel and, in some cases also by bond counsel and issuer's counsel to determine whether all material items in connection with the issuer, the issue and the security for the issue have been accurately disclosed in the Official Statement (or if a Private Placement in the Placement Memorandum) and that no material disclosure has been omitted.

Escrows – Bond proceeds invested in "AA" or "AAA" securities until certain conditions described in the bond documents occur. May be used for new projects or for refundings.

Expert Advisor – An individual or firm that advises the issuer on the terms of the pricing offered by the underwriter in a negotiated sale.

Face Amount – The par value (i.e., principal or maturity value) of a security appearing on the face of the instrument. See Denomination.

Facsimile Signature – The reproduction of a manual signature by engraving, imprinting, stamping, or other means.

Federal Funds Rate – The interest rate at which Federal Funds are traded.

Federal Funds – Deposit balances of commercial banks at the Federal Reserve Banks. Bond transactions that require payment of proceeds in immediately available funds may be accomplished by payment of the proceeds in federal funds.

Financial Advisor – A consultant to an issuer who provides the issuer with advice with respect to the structure, timing, terms, or other similar matters concerning a new issue.

Fiscal Agent – See Paying Agent.

General Obligation Bond – In Oregon, a bond secured by the pledge of the issuer's full faith, credit and unlimited property taxing power.

Good Faith Check – The cashier's check payable to the issuer included with the underwriter's bid on a competitive sale. The issuer deposits the check of the winning bidder and returns the checks to unsuccessful bidders.

Gross Proceeds – In the context of federal tax law, the total proceeds of a bond issue, including the original proceeds of the bonds, the investment return on obligations acquired with the bond proceeds (including repayment of principal), and amounts to be used or available to pay debt service on the issue.

Interest Payment Date – Date on which interest is due and payable.

Interim Financing – Financing during the time between capital construction or improvement project commencement and the closing of the long-term bond issue, usually in the form of a short-term note (bond anticipation note).

Internal Revenue Code – The Internal Revenue Code of 1986, as amended.

Invested Sinking Fund – A fund used for the repayment of a term bond. Required deposits are made, invested and used to call or redeem the term bond.

Investment Banker (Underwriter) – An individual or firm engaged in the financing of capital. The investment banker purchases securities from the issuer for resale to investors.

Investment of Proceeds – The allowable investment of bond proceeds is described in detail in the bond resolution, indenture or trust agreement. Permitted or qualified investments are reviewed carefully by rating agencies, credit providers and investors. Generally, bond proceeds must be invested in instruments of the same or higher rating as the debt issue, and interest earnings, with some exceptions, are subject to rebate.

Issue – A specific identified issue of securities (e.g., "General Obligation Building Bonds, Series 1991").

Issuer – A state, political subdivision, agency, or authority that borrows money through the sale of bonds, notes, or certifies of participation.

Lease Purchase financing – A long-term financing lease which may be sold publicly to finance capital equipment or real property acquisition or construction. The lease may be resold as certificates of participation or lease revenue bonds.

Lease-Purchase Agreement – Reference to a contract that is called a lease but is in substance a purchase or sale for which payments are made in installments over time. Lessee acquires ownership as well as use of the leased property from the inception of the lease term, and the lease typically specifies a date on which title to the property changes hands.

Legal Opinion – An opinion concerning the validity of a securities issue with respect to statutory authority, constitutionality, procedural conformity, and usually the exemption of interest from federal income taxes and state income taxes. The legal opinion is usually rendered by a law firm recognized as specializing in public borrowings, often referred to as "bond counsel" or "special counsel."

Lessee – The public entity (the obligor) that agrees to lease specific property from another entity (the lessor) for a stream of lease payments, containing both a principal and interest component, for a specified period.

Lessor – The entity (usually private (in Oregon)) that agrees to participate in a lease arrangement to facilitate the lessee's ability to borrow money through issuance of certificates of participation or lease revenue bonds. The lessor typically assigns all duties, including collection of lease payments and payments to investors, to a trustee.

Level Debt Service – Provides approximately equal annual payments to be made by the issuer through gradually increasing principal amounts coming due that are offset by declining interest payments.

Limited Tax Bond – A bond secured by a pledge of a tax or category of taxes that are limited as to rate or amount.

Manager (or senior manager) – The underwriter that serves as the lead underwriter for a bond issue. The manager may or may not enlist "co–managers" to assist in the underwriting and sale of the bonds.

Mandatory Redemption – Circumstances that require the call or redemption of outstanding securities, usually at par.

Maturity Schedule – The schedule (by dates and amounts) of principal maturities of an issue.

Maturity – The date when the principal amount of a security becomes due and payable.

Minor Portion – Under the Tax Reform Act of 1986, that portion of bond proceeds which may be invested at an unrestricted yield (an amount not exceeding the lesser of five percent of the proceeds of the issue or $100,000).

Municipal Securities Rulemaking Board (MSRB) – An independent self regulating organization established by the Securities Amendments Act of 1975, which is charged with primary rulemaking authority over dealers, dealer banks, and brokers in municipal securities.

Negotiated Sale (or underwriting) – A sale of securities that is negotiated with a single underwriting firm (or syndicate of firms) selected in advance.

Net Interest Cost (NIC) – The traditional method of calculating bids for new issues of municipal securities. Computed as either: (a) Dollar Cost: total scheduled coupon payments + bid discount (–bid premium), or (b) Interest Rate: total scheduled coupon payments + bid discount (–bid premium) divided by bond year dollars. NIC does not differentiate between this value of interest paid immediately and interest paid in the future. See also True Interest Cost.

Net Lease (Triple Net Lease) – A lease in which operational costs, including (1) maintenance, (2) taxes, and (3) insurance are paid by the lessee and are not part of the lease payments.

No–Arbitrage Certificate – Certificate prepared by bond counsel and signed by the issuer which states that the sale of the security and investment of proceeds will not violate IRS arbitrage regulations.

No–Litigation Certificate – Certificate prepared by bond counsel and signed by the issuer which states that no pending litigation against the issuer will interfere with the pledges and covenants made by the issuer in respect to repayment of debt service.

Non–Appropriation Clause – A clause in a lease–based financing stating the lease will terminate if the governing board does not annually appropriate the lease payment.

Non–Callable Bond – A bond that cannot be called for redemption by the issuer before its maturity date.

Notes – Short–term promises to pay specified amounts of money, secured by specific sources of future revenues, such as taxes, federal and state aid payments, and bond proceeds.

Notice of Sale – An official document prepared by or for the issuer enumerating the important characteristics of the bond issue, the bidding rules, and other information pertinent to bidders for the purposes of preparing bids.

Offering Prices – The price at which the underwriter or members of an underwriting syndicate for a new issue will offer securities to investors.

Official Statement – A comprehensive document prepared by or for the issuer containing detailed information about the security being offered, the issuer and the security pledged for payment of the issue. The official statement is similar to a prospectus. See Preliminary Official Statement.

Original Issue Discount – The discount from par at which a new issue comes to the market, i.e., is offered to investors.

Original Issue Premium – The amount by which the original offering price for a security exceeds its par value.

Original Proceeds – Net amounts (after the payment of all expenses of issuance) received by the issuer as a result of the sale of the issue.

Original Purchaser – The purchaser of an issue directly from the issuer, usually an underwriter.

Overissuance – A bond issue where it may be reasonably expected that the original proceeds of the issue will exceed the amount necessary for the governmental purpose or purposes of the issue by more than 5%.

Overlapping Debt – That portion of the debt of other governmental units for which residents of a particular municipality are responsible (e.g., for services or facilities shared by several municipalities).

Par Value – The principal amount of a bond or note due at maturity.

Paying Agent – The institution (usually a bank or trust company) identified on the security as the agent designated by the issuer to make payment of principal and interest. See Bond Registrar and Transfer Agent.

Point – One percent of the face amount of a bond; $10 for each $1000 face amount.

Preliminary Official Statement – A version of an official statement in preliminary form without pricing, yield or maturity information used by the issuer or underwriter(s) to inform the public prior to receipt of bids at competitive bidding or prior to the assignment of an interest rate and offering price in a negotiated sale. Orders for the security may not be taken based on a distribution of these preliminary documents, and a statement to this effect is usually contained on the cover page, printed in red, and thus the preliminary document is often referred to as the "Red Herring".

Pricing Date – In a competitive sale of securities, the date bids to purchase the issue are due. In a negotiated sale of securities, the date the interest rates and original issue prices are finalized to determine yield to maturity.

Principal Amount – The face amount of a bond, exclusive of accrued interest and payable at maturity or, as to an issue, the aggregate principal amount of the issue.

Private Placement – The original placement of an issue with one or a few investors (usually banks, life insurance companies, pension funds, or other financial institutions) as opposed to being publicly offered and sold. Private placements are not subject to the Securities Act of 1933.

Proceeds – The money the issuer actually receives upon initial delivery of an issue, being par value, plus premium or less discount, and plus accrued interest.

Project – The stated use of proceeds of the issue.

Rating Agencies – Organizations which provide the service of evaluating the relative creditworthiness of issues and assigning ratings to them, such as Moody's Investors Service, Inc., Standard & Poor's Corporation, and Fitch's Investors Service.

Rating Agency – An agency which analyzes new and outstanding bond issues to assign a rating of comparative quality.

Reasonably Required Reserve – Term used in the Internal Revenue Code to describe an amount, not exceeding 10% of the face amount of the bond, which will not be used for payment of project costs but will be held in reserve for a specified purpose, e.g., payment of debt service.

Rebate – Requirement imposed by Tax Reform Act of 1986 whereby issuer of bonds must pay the Internal Revenue Service an amount equal to its profit earned from investment of bond proceeds at a yield above the bond yield calculated pursuant to the Internal Revenue Code, together with all income earned on the accumulated profit pending payment. Payments are due at least every five years and are subject to certain exceptions.

Red Herring – See Preliminary Official Statement.

Red Book – The Bond Buyer "Directory of Municipal Bond Dealers of the United States," which also contains a directory of bond counsel and financial advisors.

Redemption – Also referred to as a "call", the cancellation of an outstanding debt through a cash payment prior to its stated maturity. Called or redeemed bonds that are not surrendered cease to earn interest.

Refunding – The sale of a new issue, the proceeds of which are to be used to pay debt service on and retire an outstanding issue. The purpose of refunding may be to save interest cost, extend the maturity of the debt or remove restrictive covenants in the security documents.

Registered Bond – A bond the owner of which is registered with the issuer, bond registrar or trustee either as to both principal and interest or as to principal only. Transfer of ownership can only be accomplished when the securities are properly endorsed by the registered owner and the transfer recorded on the registration books.

Reoffering Price – For new issues coming to market, the price at which bonds are offered for sale to investors by the underwriter(s).

Reserve Fund – Fund held by issuer or designated trustee for a portion of proceeds as required by law and the bond resolution. May not exceed 10% of the net proceeds of the bonds. Often is required on revenue bonds to maintain reasonably required reserve in the event of a shortfall in revenues to pay debt service.

Sale Date – See Pricing Date.

Selling Group – A group of dealers and brokers that have been asked to join in the offering of a new issue of securities, but are neither liable for any unsold balance nor share in the profits of the underwriting syndicate.

Serial Bonds – Bonds which are stated to mature annually (or, in some cases, semiannually) over a number of years.

Short-Term – A term usually referring to obligations with a maturity of less than one year.

Sinking Fund – A fund established by bond issuers, generally required in the bond resolution, that is increased through time for the purpose of either retiring some of the outstanding bonds before their maturity or reducing the risk of default of the bonds.

SLG's – Securities issued by the U.S. Treasury Department known as the State and Local Government series. These securities are backed by the full faith and credit of the U.S. Government and may be ordered only on behalf of state and local issuers to be held in an escrow fund for advance refundings.

Special Tax Counsel – A municipal bond lawyer or firm that specializes in Internal Revenue Code compliance.

Spread – The difference between the bond and the asked price or yield in the quotation of a security; the difference between yields on or prices of two securities of differing sorts or differing maturities; the difference between the underwriter's bid on a bond issue and the resale price to the public.

Syndicate – A group of underwriters formed for the purpose of participating jointly in the initial public offering of a new securities issue. The underwriting syndicate will be led by a "senior manager".

Tax Exempt Municipal Lease – A long–term financing lease (e.g., a lease with an option to purchase) which, for Internal Revenue Service purposes, is an "obligation" of a state, local government unit, authority or other political subdivision but is not indebtedness under state constitutional and statutory debt limits and debt incurring procedures.

Tax Anticipation Note (TAN) – A note issued in anticipation of the future receipt of the proceeds of taxes assessed by the issuer.

Tax and Revenue Anticipation Note (TRAN) – A note issued in Anticipation of future receipt of the proceeds of taxes assessed by the issuer and of revenues received from other sources.

Tax Reform Act of 1986 – Federal tax legislation which substantially changed existing federal income tax laws, and imposed severe restrictions on the issuance by local governments of debt securities the interest upon which is exempt from federal income tax.

Temporary Period – Under Section 148 of the Internal Revenue Code, a period of time during which bond proceeds can be invested at unlimited yields.

Term Bonds – Bonds of an issue that have a single stated maturity date. Serial bonds and term bonds are often combined in one issue.

Term Issue – An issue or portion of an issue that has a single stated maturity.

Total Bonded Debt – The total general obligation debt issued by a municipality.

Total Direct Debt – The sum of the total bonded debt and any unfunded debt (typically short–term notes) of a municipality.

Transcript of Proceedings – Collection of documents relating to an issue. The transcript is prepared and distributed by bond counsel.

Transfer Agent – An agent of the issuer responsible for issuing registered securities, formulating and maintaining a list of registered owners, effectuating transfers and making necessary re–registration, and maintaining blank certificates to allow for secondary market trading. Transfer Agents may also serve as Paying Agents and be responsible for paying interest on a timely basis.

Transferred Proceeds – A federal income tax concept applicable in the case of refundings, referring to the proceeds of a prior bond issue which are unexpended on the date the prior issue is discharged. Such proceeds are treated as being transferred to the refunding bond issue for investment yield limitations purposes.

True Interest Cost (TIC) – A method of computing interest cost or rate for new issues of securities involving discounted present value. Sometimes called "Canadian interest cost" (CIC). TIC is the preferred method for calculating the effective interest cost of an issue structure. See also NIC.

Underwriter – A financial institution (investment bank or commercial bank) which purchases a new issue of municipal securities for resale. The underwriter may acquire the bonds either by negotiation with the issuer or by award on the basis of a competitive bidding. The underwriter assumes all the risk, and thus all the profits or losses, of selling the new issue; the individual at the underwriting firm who is responsible for valuing and purchasing the new issue.

Underwriter's Counsel – A firm of municipal bond attorneys hired by the underwriter to prepare the official statement in a negotiated underwriting and review all documents and agreements.

Underwriting Spread – An amount representing the difference between the price at which securities are bought from the issuer by the underwriter and the price at which they are reoffered to the investor.

Yield to Maturity – A yield concept based on the assumption that the security is held to maturity and that all interest received over the life of the bond is invested at the coupon rate of interest.

Zero Coupon Bonds – Bonds that bear no periodic interest but are marketed at substantially below face amount. The maturity value an investor receives is equal to the principal invested plus interest earned compounded semiannually at the original offering yield to maturity. See Current Coupon Bonds.

source: Packard Press, Financial Publication Division

APPENDIX C

OREGON REVISED STATUTES[*]

Notice by School Board for Meetings

192.640 Public notice required; special notice for executive sessions, special or emergency meetings. (1) The governing body of a public body shall provide for and give public notice, reasonably calculated to give actual notice to interested persons including news media which have requested notice, of the time and place for holding regular meetings. The notice shall also include a list of the principal subjects anticipated to be considered at the meeting, but this requirement shall not limit the ability of a governing body to consider additional subjects.

(2) If an executive session only will be held, the notice shall be given to the members of the governing body, to the general public and to news media which have requested notice, stating the specific provision of law authorizing the executive session.

(3) No special meeting shall be held without at least 24 hours notice to the members of the governing body, the news media which have requested notice and the general public. In case of an actual emergency, a meeting may be held upon such notice as is appropriate to the circumstances, but the minutes for such a meeting shall describe the emergency justifying less than 24 hours' notice. [1973 c.172 § 4; 1979 c.644 § 3; 1981 c.182 § 1]

Ballot Title

250.035 Form of ballot title.

(1) The ballot title of any measure to be initiated or referred shall consist of:

(a) A caption of not more than 10 words which reasonably identifies the subject of the measure;

(b) A question of not more than 20 words which plainly phrases the chief purpose of the measure so that an affirmative response to the question corresponds to an affirmative vote on the measure; and

(c) A concise and impartial statement of not more than 85 words summarizing the measure and its major effect.

(2) The ballot title shall not resemble, so far as probably to create confusion, any title previously filed for a measure to be submitted at that election. [1979 c.190 § 143; 1979 c.675 § 1; 1985 c.405 § 1; 1987 c.556 § 1; 1987 c.875 § 1]

THE FOLLOWING SECTION 119 OF CHAPTER 903 OF OREGON LAWS 1991 IS ADDED TO AND MADE A PART OF ORS CHAPTER 250.

SECTION 119. (1) The ballot title of any measure requesting elector approval of bonds, the principal and interest on which will be payable from taxes imposed on property or property ownership that are not subject to the limitations of section 11b, Article XI of the Oregon Constitution, shall contain, in addition to the matters required by ORS 250.035, the following statement immediately after the ballot title question and appearing with it, in this manner:

Question: (herein the question is stated) If the bonds are approved, they will be payable from taxes on property or property ownership that are not subject to the limits of section 11b, Article XI of the Oregon Constitution.

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[*] Please note the editors have attempted to update the text of the Oregon Revised Statutes set forth below in accordance with the changes made by the 1991 Oregon legislature. However, the changes to the Oregon Revised Statutes have not been reviewed or approved by the Legislative Counsel Committee.

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(2) The words of the statement required by subsection (1) of this section shall not be counted for purposes of ORS 250.035.

Certain Election Procedures

254.465 County clerk may conduct election by mail; notice to governing bodies; election dates when voting by mail prohibited. (1) A county clerk may conduct an election by mail in the county, in a city or in a district defined in ORS 255.012, under the supervision of the Secretary of State. In deciding to conduct an election by mail, the county clerk may consider requests from the governing body of the county, city or district, and shall consider whether conducting the election by mail will be economically and administratively feasible.

(2) Not later than the third Monday in January of each year, the county clerk shall advise the governing body of the county, each city and each district for which the county clerk is the election officer that the county clerk may conduct one or more elections by mail in that year.

(3) Not later than the 50th day before any election, other than a recall or emergency election, held on any date other than the date of a primary or general election, the county clerk shall notify the affected county, city or district whether its election will be conducted by mail.

(4) This section applies to any election, other than an emergency election, held on any date other than the date of a primary or general election. [1981 c.805 § 1; 1983 c.199 § 1; 1985 c.575 § 1; 1987 c.357 § 2; 1991 c.719 § 12]

Note: The amendments to 254.465 by section 80, chapter 267, Oregon Laws 1987, are repealed January 1, 1994. See section 82, chapter 267, Oregon Laws 1987. The text is set forth for the user's convenience.

254.465. (1) A county clerk may conduct an election by mail in the county, in a city or in a district defined in ORS 255.012, under the supervision of the Secretary of State. In deciding to conduct an election by mail, the county clerk may consider requests from the governing body of the county, city or district, and shall consider whether conducting the election by mail will be economically and administratively feasible.

(2) Not later than the third Monday in January of each year, the county clerk shall advise the governing body of the county, each city and each district for which the county clerk is the election officer that the county clerk may conduct one or more elections by mail in that year.

(3) Not later than the 50th day before any election, other than a recall or emergency election, held on any date other than the date of a primary or general election, the county clerk shall notify the affected county, city or district whether its election will be conducted by mail.

(4) This section applies to any election, other than an emergency election, held on any date other than the date of a presidential or biennial primary or general election. This section does not apply to any election held on the date of a presidential primary election.

255.085 Notice of district election on issuance of bonds or on other measure. (1) Not later than the 61st day before a district election on a measure to be held on the fourth Tuesday in March, the third Tuesday in May or the first Tuesday after the first Monday in November, on the 47th day before a district election on a measure to be held on the third Tuesday in September or the 34th day before a district election on a measure to be held on any other day, the district election authority shall deliver to the election officer a notice stating the date of the election and a ballot title. The district election authority shall prepare the ballot title for a measure referred by the authority with the assistance of the district attorney for the county of the election officer or an attorney employed by the district election authority.

(2) If a district submits a measure to the electors of the district at an election held on the third Tuesday in May or the first Tuesday

after the first Monday in November and the district submitted a measure on the election date in ORS 255.345 (1) immediately preceding the date of an election held on the third Tuesday in May or the first Tuesday after the first Monday in November, the district election authority shall file the measure for the election held on the third Tuesday in May or the first Tuesday after the first Monday in November with the election officer not later than the 47th day before an election held on the third Tuesday in May or on the first Tuesday after the first Monday in November.

(3) A notice of election called to approve the issuance of bonds shall include:

(a) The purpose for which the bonds are to be used;

(b) The amount and the term of the bonds;

(c) The kind of bonds proposed to be issued; and

(d) If the bond election is authorized by ORS 450.900, the additional notice requirements in ORS 450.905.

(4)(a) In the case of a measure submitted by initiative or referendum petition, the election officer shall publish the notice in the next available edition of a newspaper of general circulation in the district after the deadline for filing the notice.

(b) In the case of a measure referred by the district election authority, the election officer shall publish the notice of election and a notice that an elector may file a petition for review of the ballot title not later than the date referred to in ORS 255.155, in the next available edition of a newspaper of general circulation in the district after the notice of election is filed. If the circuit court certifies a different ballot title, the election officer shall publish an amended notice of election in the next available edition of the newspaper referred to in this subsection after the new title is certified to the election officer. [Formerly 259.090, 1981 c.173 § 32; 1981 c.391 § 11; 1983 c.379 § 2; 1985 c.808 § 42; 1987 c.707 § 23; 1989 c.923 § 14]

[1991 c.71 § 10; 1991 c.107 § 12]

255.095 Publication of election notice and facsimile of sample ballot.

(1) Notice of any district election shall be published once in a newspaper of general circulation in the district.

(2) Not later than the day of the election nor sooner than the 15th day before the election, the election officer shall publish a facsimile, except as to size, of the sample ballot, a list of the polling places and the hours the polls are to be open. The information shall be published once in the newspaper in which the notice was published under subsection (1) of this section, at the current published local display advertising rate.

(3) The Secretary of State by rule may establish the procedure for preparing election notices for publication in a newspaper. [Formerly 259.100; 1983 c.379 § 3]

255.215 Notice by mail in lieu of or in addition to newspaper publication. In lieu of or in addition to publication of notice under ORS 255.085 and 255.095, if it is expedient to do so the election officer may give notice by mail to each elector of the district. The notice shall have postage prepaid, and shall be considered given when mailed. Mailed notice of a district election under ORS 255.085 shall be made not later than Thursdays after receipt of the ballot title. Proof of mailing shall be by affidavit of the election officer. The affidavit shall state the time and place the notice was mailed. [Formerly 259.110; 19981 c.173 § 33; 1981 c.639 § 7; 1985 c.808 § 46; 1991 c.107 § 14]

255.345 Special election dates. (1) Except as provided in ORS 255.355 and subsection (2) of this section, a special election called by a district election authority shall not be held on any date other than:

(a) The fourth Tuesday in March;
(b) The third Tuesday in May;
(c) The last Tuesday in June;
(d) The third Tuesday in September; or
(e) The first Tuesday after the first Monday in November.

(2) A special election may be held on a date other than that provided in subsection (1) of this section, if the district election authority by resolution finds that an election sooner than the next available election date is required on a measure to finance repairs to property damaged by fire, vandalism or a natural disaster.

(3) As used in this section, "district election authority" means the body or officer authorized or required to call an election for a public corporation formed under, and deriving its powers solely from, the statutes of this state, but does not include a city or county. [Formerly 259.260; 1981 c.639 § 9; 1989 c.923 § 17]

Bonds Generally

287.008 Issuance of bonds of municipalities. All bonds issued by municipalities shall be issued in accordance with the provisions of ORS 288.515 to 288.560. [Amended by 1967 c.408 § 1; 1969 c.25 § 2; 1971 c.325 § 2; 1975 c.642 § 17; 1981 c.526 § 1; 1983 c.347 § 9]

287.010 Appraised Value of Timber Used in Determining Borrowing and Bonding Capacities of Eastern Oregon Counties, Cities and Districts.
Notwithstanding any provision of ORS 321.405 to 321.520, timber in eastern Oregon shall be considered as though it remained on the tax rolls at the appraised values established pursuant to ORS 321.485(3) for the purpose of determining the borrowing and bonding capacities of counties, cities and taxing districts in eastern Oregon.

[1961 c.627 s.27]

287.012 Use and Disposition of Bond Proceeds.

(1) Notwithstanding any other provision of law, when bonds, obligations or other evidence of indebtedness issued by any district, authority or public corporation after August 9, 1961, are sold the proceeds may be used to pay attorneys' fees and other expenses incurred in the preparation, authorization, issuance and sale of, and in all proceedings relating to, such bonds, obligations or other evidence of indebtedness.

(2) When the bonds are sold, the proceeds received in excess of the principal shall be placed with the principal in the improvement fund for which the bonds were issued or in a debt service fund to repay the bond. <1961 c.70 § 1; 1971 c.515 § 1>

287.014 Definitions for ORS 287.014 to 287.029. As used in ORS 287.014 to 287.026, unless the context requires otherwise:

(1) "Bond" means a general obligation bond or a limited tax bond, as defined in Section 98 of this 1991 Act.

(2) "Issuer" includes the state, cities, counties, common and union high school districts, community college districts, special districts, authorities, and other municipal corporations authorized by law to issue general obligation bonds. [1975 c.642 § 9 (enacted in lieu of 287.002)]

287.016 Manner of issuance. Bonds of any issuer shall be issued in the manner provided in ORS 287.014 to 287.026. 1975 c.642 § 10 (enacted in lieu of 287.002)]

287.018 Preliminary official statement required for general obligation issues. For general obligation issues:

(1) For bonds which are sold at public competitive bid sale, the issuer shall prepare and make available upon request to bidders and investors a preliminary official statement that includes the following:

(a) Past and current financing and estimated future financing of the issuer;

(b) A brief description of the financial administration and organization of the issuer;

(c) A brief description of the economic and social characteristics of the issuer which will permit bidders and investors to appraise the issuer's ability to assume and service adequately the debt obligation; and

(d) Any other information the issuer may provide or which the Oregon Municipal Debt Advisory Commission may require by rule of any issuer other than the state.

(2) The preliminary official statement described in subsection (1) of this section shall be available not later than 14 calendar days preceding the bond sale.

(3) The preliminary official statement shall contain the best available information which shall be accurate to the best knowledge of the issuer. However, any errors or omissions in the preliminary official statement shall not affect the validity of the bond issue.

(4) The statement required by this section of state agencies shall be submitted to the State Treasurer for approval. If not approved, the State Treasurer shall note the revision required. The issuer shall make the noted revisions. [1975 c.642 § 11 (enacted in lieu of 287.002); 1977 c.266 § 6; 1981 c.660 § 12; 1983 c.347 § 10; 1991 c.902 § 91]

287.020 Assistance by Oregon Municipal Debt Advisory Commission; expenses. (1) The issuer may request the Oregon Municipal Debt Advisory Commission to prepare the preliminary official statement described in ORS 287.018.

(2) The issuer may request the Oregon Municipal Debt Advisory Commission to prepare the notice of bond sale required by ORS 287.022 and 287.024. However, the responsibility for publication, advertising and distribution of the notice of bond sale shall remain with the issuer.

(3) The commission may charge the issuer a fee commensurate with expenses incurred in the preparation, publication and distribution of a preliminary official statement or notice of bond sale prepared pursuant to subsection (1) or (2) of this section. [1975 c.642 § 12 (enacted in lieu of 287.002); 1977 c.266 § 7]

287.022 Requirements for notice of bond sale; bids required. (1) For bonds which are sold at public competitive bid sale, the issuer shall prepare a notice of bond sale which shall specify:

(a) The time, date and place where bids will be received, and considered and acted upon, the total amount of bonds, and the denominations of the bonds;

(b) The issue date, maturity dates and amounts, interest payment dates, and place of payment of the bonds;

(c) The date of optional redemption, if any, the call price premium, if any, and the order of bond redemption and place of redemption;

(d) The maximum effective rate of interest and the minimum percentage of par value of the bonds which may be bid;

(e) The required good faith deposit by certified or cashier's check on a bank doing business in this state in the amount not less than two percent of the par value of the bonds, or $500,000, whichever is the lesser;

(f) Such constraints on the coupon rates as the issuer may impose;

(g) The interest basis and definition thereof on which bond bids are to be awarded; and

(h) The name of bond counsel, if any, who will furnish the legal opinion.

(2) The notice of sale may contain;

(a) The name of the person who will furnish financial data;

(b) Coupon rate multiples;

(c) Registration provision, if any;

(d) Bid forms availability;

(e) Estimated delivery date and place;

(f) Procedure for awarding tie bids;

(g) Such other conditions as the issuer may impose;

(h) The statute and ordinance, if any, pursuant to which the bonds are to be issued; and

(i) The purpose of the bonds.

(3) Bids submitted must be for all bonds offered for sale. All bids are to be unconditional and to be submitted in writing in a sealed envelope clearly marked as a proposal for bonds. [1975 c.642 § 13 (enacted in lieu of 287.002); 1981 c.94 § 18; 1991 c.902 § 92]

287.024 Notice; publication. For bonds which are sold at public competitive bid sale, and except for the state:

(1) The issuer shall cause the notice of bond sale, or a summary thereof, to be published in one or more newspapers having general circulation within the boundaries of the issuer.

(2) The notice of bond sale, or the summary, shall be published not less than 14 calendar days preceding the date of the bond sale.

(3) In addition to the publication described in subsection (1) of this section, a notice or summary of the notice shall be published in a business and financial newspaper published in Portland, Oregon, not less than 14 calendar days preceding the date of bond sale. If a summary is published under this subsection, it must specify the location where the complete notice of sale is available.

(4) For issues of $10 million or more par value, a notice or summary of the notice of bond sale shall be submitted for publication in at least one issue of a national financial newspaper not less than 14 calendar days preceding the date of bond sale.

(5) Copies of the complete notice of sale shall be furnished upon request to bidders, investors and the public.

(6) If circumstances warrant, the State Treasurer may on an individual sale basis approve other terms and conditions for the public notice of bond sale in lieu of or in addition to those specified in subsections (1) to (4) of this section. [1975 c.642 § 14 (enacted in lieu of 287.002); 1981 c.661 § 7; 1983 c.347 § 11; 1991 c.143 § 1; 1991 c.902 § 93]

287.026 Bids as public record; to whom sale made; time of sale; rejection of bids. For bonds which are sold at public competitive bid sale:

(1) Bonds shall be awarded by public competitive sale on the basis described in the notice of sale. All bids must be entered into the public record of the issuer.

(2) All bids shall be publicly opened at the time and place specified in the notice of sale. The bonds shall be sold to the responsible bidder whose bid will result in the lowest interest cost to the issuer, as defined in the manner set forth in the notice of sale, and taking into consideration any premium or discount bid. Unless all bids are rejected, the sale must be

acted upon within four hours of the time the bids are opened.

(3) The issuer may reject any or all bids and readvertise the sale of bonds in the manner required by chapter 642, Oregon Laws 1975. The issuer shall make public the reasons why any or all bids are rejected.

(4) The issuer need not calculate the total amount of the sale prior to awarding the sale to any bidder if the issuer is able to determine the lowest responsible bid based on interest cost, discount and premium aspects of the submitted bids. [1975 c.642 § 15 (enacted in lieu of 287.002); 1987 c.900 § 1; 1991 c.902 § 94]

Note: The Legislative Counsel has not, pursuant to 173.160, undertaken to substitute specific ORS references for the words "chapter 642, Oregon Laws 1975" in 287.026. Chapter 642, Oregon Laws 1975, enacted into law and amended the ORS sections which may be found by referring to the Comparative Section Table located in volume 15 of Oregon Revised Statutes.

287.028 Negotiated sale; application of 287.014 to 287.026. Notwithstanding any other provision of law, a municipality may negotiate the sale of its bonds or, may sell its bonds at public competitive bid sale. Unless bonds are sold to the Federal Government or the State of Oregon or any corporation, department or agency thereof, when bonds are sold by negotiated sale, the issuer shall engage an expert advisor who shall deliver to the issuer a report evaluating the terms of the proposed negotiated sale, prior to the sale of the bonds. [1975 c.642 § 16; 1983 c.347 § 31; 1991 c.902 § 95]

Short-Term Borrowing

287.435 "Municipality" defined for ORS 287.442. As used in ORS 287.442, "municipality" means political subdivisions of or in this state and municipal, quasi-municipal and public corporations. [1983 c.124 § 3; 1983 s.s. c.6 § 1]

287.442 Authority to issue warrants and short-term notes. (1) The governing body of any municipality may contract indebtedness by issuance of warrants or short-term promissory notes for the purpose of meeting current expenses, retiring outstanding bonds or warrants, or paying the interest thereon, whenever provision for such borrowing has been made in duly adopted budgets as provided by ORS 294.443.

(2) In the exercise of the authority granted by subsection (1) of this section, the governing body may contract or refund short-term loans which shall at no time exceed in the aggregate 80 percent of the ad valorem taxes upon real and personal property theretofore certified to the county assessor for levy by such municipality for the tax year in which the warrants or notes are issued, and 80 percent of other budgeted and unpledged revenues which the governing body of such municipality estimates will be received from other sources during said tax year.

(3) The debt limitations imposed by law, or the charter of any municipality shall not affect the right of any municipality to issue warrants or notes under authority of this section, nor shall any such warrants or notes be taken into consideration in determining the percentage or extent to which such municipality is indebted under any such debt limitation. Warrants or notes issued to refund outstanding warrants or notes shall not be considered to be within any of such debt limitations.

(4) A municipality issuing the notes shall determine:

(a) The maximum effective rate of interest the notes shall bear;

(b) The manner of sale;

(c) The discount, if any, the municipality will allow;

(d) The terms and conditions by which the notes may be redeemed prior to maturity;

(e) The maturities of the notes, which shall not extend beyond the end of the fiscal year in which the borrowing takes place;

(f) The form and denominations of the notes; and

(g) All other terms and conditions related to the sale of the notes.

(5) The municipality shall deposit a portion of each distribution of ad valorem taxes or payment of revenues in anticipation of which the notes or warrants are issued in a separate account. Deposits to the account shall be made according to a schedule which requires that not less than 100 percent of each distribution or payment, which is received by the municipality after the estimated date of the municipality's maximum cumulative cash flow deficit, be placed in the account until sufficient amounts will be in the account to pay principal and interest due on the notes or warrants at maturity. The schedule shall be established by the municipality in its proceedings to issue the notes or warrants. Moneys in the account shall be used only to pay principal and interest on the notes or warrants, and may be pledged by the municipality for such purpose. [Amended by 1977 c.476 § 1; 1983 c.124 § 4; 1983 c.496 § 2; 1985 c.354 § 1; 1985 c.441 § 2]

287.526 Interim borrowing limit; terms; payment. (1) A municipality may borrow money for interim financing of a public improvement if prior thereto an agency of the state or of the Federal Government has agreed in writing to provide funds for the public improvement or bonds of the municipality have previously been authorized to apply in payment of such cost. Debts created under this section outstanding at any one time shall not exceed in the aggregate the estimated unpaid cost of the public improvement or the total of written offers of such state and federal grants, if any, plus the amount of the bonds previously authorized but not issued for the public improvements, whichever is the lesser.

(2) A municipality issuing the notes shall determine:

(a) The maximum effective rate of interest the notes shall bear;

(b) The manner of sale;

(c) The discount, if any, the municipality will allow;

(d) The terms and conditions by which the notes may be redeemed prior to maturity;

(e) The form and denominations of the notes; and

(f) All other terms and conditions related to the sale of the notes.

(3) Notes issued pursuant to this section shall mature not later than the date estimated by the governing body of the municipality as the completion date of the improvement financed in whole or in part by the loan or grant. The principal of the notes and the interest thereon shall be paid in full only from and within 60 days of receipt of the grant, if any, or the proceeds of sale of the bonds issued to finance such improvements and from any other funds available therefor.

(4) In the case of a state or federal agreement described in subsection (1) of this section and after advertising, notes may be issued to redeem prior notes, at the discretion of the municipality, but can not mature later than one year from the date of such redemption. However, in no case shall the maturity of the original note when combined with the maturity of any redemption notes exceed the construction period of the public improvement plus two years. [1973 c.488 § 2; 1981 c.94 § 26; 1981 c.526 § 8; 1983 c.124 § 8]

287.528 [1973 c.488 § § 3, 4; repealed by 1983 c.347 § 32]

287.702 [Amended by 1957 c.704 § 2; renumbered 288.310]

287.704 [Amended by 1957 c.704 § 1; renumbered 288.320]

287.990 [Amended by 1957 c.704 § 3; renumbered 288.990]

288.515 Definitions for 288.515 to 288.600.

As used in ORS 288.515 to 288.590:

(1) "Bonds" means general obligation, revenue or tax increment bonds, or notes of a public body.

(2) "Public body" means the State of Oregon, its agencies, institutions or any municipality authorized by law to issue bonds.

(3) "Municipality" means a political subdivision of this state and municipal, quasi–municipal and public corporations authorized by law to issue bonds.

[1981 c.94 s.2; 1983 c.347 s.1; 1991 c.583 § 4]

288.520 Public body to determine interest, discount, terms; maximum interest rate for state bonds.

(1) Except as provided in subsection (5) of this section a public body issuing bonds shall determine:

(a) The maximum effective rate of interest, if any, which the bonds shall bear including variable interest rates if the public body so decides;

(b) The discount or premium, if any which the public body will allow;

(c) The terms by which the bonds may be redeemed prior to maturity, including, but not limited to, the amount of any permitted premium;

(d) The form of the bonds;

(e) The term of the bonds;

(f) The schedule for payment of bond principal and interest;

(g) The denominations of the bonds; and

(h) For revenue bonds, tax increment bonds or notes, the type of sale.

(2) When issuing general obligation bonds, the public body must sell the bonds in conformance with ORS 287.014 to 287.026.

(3) The schedule required by paragraph (f) of subsection (1) of this section shall provide for substantially equal principal payments, substantially equal combined payments of principal and interest, or payments of principal and interest that are structured to facilitate payment from expected revenues. Before establishing a schedule structured to facilitate payment from expected revenues, a municipality shall prepare a financing plan that reasonably estimates the flow of revenues that are expected to be used to pay bond principal and interest, and demonstrates that the expected flow of revenues are sufficient to pay bond principal and interest when due. Not less often than annually, the governing body shall review and update its financing plan and, if necessary, take appropriate action to provide financial resources to assure timely payment of debt service. For purposes of this subsection, the term "revenues" includes, but is not limited to, assessment payments.

(4) A municipality may establish a sinking fund for the purpose of repaying principal and interest when due and may covenant to make contributions to that fund.

(5) When a public body issuing general obligation bonds is the State of Oregon or one of its agencies, the maximum effective rate of interest which the bonds shall bear is 13 percent per annum. However, if an agency is unable to sell the bonds after a reasonable marketing effort, the maximum effective rate of interest may be increased but shall not exceed 14 percent per annum.

(6) Notice of any redemption authorized under paragraph (c) of subsection (1) of this section shall be given in the manner directed by the public body, which shall include publication in at least one issue of a business and financial newspaper published within the City of Portland, Oregon.

[1981 c.94 s.3; 1981 c.661 s.4; 1981 c.879 s.1; 1983 c.347 s.2; 1985 c.441 s.3]

288.525 Expenditure of bond proceeds for interest or redemption. (1) A public body may expend bond proceeds for the payment of interest on the bonds for the period established by the public body.

(2) A public body may expend bond proceeds to purchase or redeem the bonds from which proceeds are derived. [198 c.94 § 4; 1983 c.347 § 3]

288.530 Deferral of initial payment of principal on bonds; determination of interest periods. A public body may defer initial payment of principal on bonds for a period of time it reasonably determines, and shall determine whether interest should be paid semiannually or otherwise.

[1981 c.94 s.5]

288.535 Use of seal.

A public body authorized by law to possess a seal shall cause such seal to be imprinted, attached, impressed or otherwise evidenced on any bond of which it is the issuer. However, the failure to imprint, attach, impress or otherwise evidence a seal on any bond shall not affect the validity thereof.

[1981 c.94 s.6]

288.540 Authorized signatures.

Bonds of a public body shall be executed by the signature or signatures of one or more officers as specified by the public body. Signatures of the designated officers may be either manual or facsimile, but at least one such signature shall be manual in form. However, all signatures of the public body may be by facsimile if the bonds are to be authenticated by at least one manual signature.

[1981 c.94 s.7]

288.545 Form of bonds.

Bonds may be issued in coupon form, with or without privilege of registration, or may be in registered form, or both, with the privilege of converting and reconverting from one form to another, upon such terms and conditions as provided by the public body and applicable provisions of federal law. As evidence of indebtedness, the public body may utilize immobilized or book–entry delivery systems and may use depositories for these purposes.

[1981 c.94 s.8; 1983 c.129 § 1]

288.550 Preliminary official statement not required in certain circumstances.

The preliminary official statement required for general obligation bonds by ORS 287.018 shall not be required for any issue for which a commitment to purchase has been received from any state or federal agency unless such state or federal agency requires the preparation of such document. If any other purchaser is awarded the sale of general obligation bonds offered at a sale for which a commitment to purchase such bonds has been received from a state or federal agency, an official statement shall be prepared prior to the delivery of the bonds if such other purchaser so requests.

[1981 c.94 s.9]

288.570 Appointment of paying agents. (1) In connection with the issuance of bonds, any municipality may appoint one or more paying agents to serve as paying agent on all bonds issued after May 26, 1983. The same agents must serve as paying agent for all bonds issued by the municipality.

(2) The paying agents designated under subsection (1) of this section shall either be a financial institution authorized to do business in Oregon or the state's fiscal agent as provided for in ORS 288.020.

(3) Any municipality which is required by law to use the county treasurer as paying agent may appoint a paying agent and registrar. The municipality shall provide the county treasurer written notice of such appointment no later than 20 days following the appointment.

(4) Any municipality appointing a paying agent under the authority of ORS 288.545 and 288.570 to 288.590 may:

(a) Provide for powers, duties and functions and compensation of such paying agent.

(b) Limit the liabilities of such paying agent.

(c) Prescribe a method for resignation, removal, merger or consolidation of such paying agent, appointment of a successor paying agent and transfer of right and properties to such successor paying agent.

(5) The entity through which bonds are payable shall serve as registrar under such terms and conditions as may be required by rule of the Oregon Municipal Debt Advisory Commission in effect at the time such agreement is executed.

(6) If the municipality's paying agent is the state's fiscal agent, the municipality shall also designate a coregistrar within the State of Oregon. The coregistrar may be either a financial institution authorized to do business in Oregon or a municipality. A municipality may appoint the state's fiscal agent as paying agent for bonds issued by the municipality. The municipality is not required under this section to appoint the state's fiscal agent as paying agent for all bonds issued by the municipality.

(7) Notwithstanding subsection (5) of this section, in cases where the municipality elects to serve as its own paying agent, it may contract with a financial institution authorized to do business in Oregon or the State of Oregon's fiscal agent to register bonds at the time of original issuance.

(8) The authority granted by ORS 288.545 and 288.570 to 288.590 is in addition to any authority to appoint a paying agent or registrar provided by statute or charter amendment. [1983 c.129 § § 3, 5; 1985 c.441 § 4]

288.590 Registered bond ownership not public record. The records of registered bond ownership, whether maintained by the state or a municipality or its registrar, are not public records within the meaning of ORS 192.410(4). [1983 c.129 § 4]

Rebates Required Under the Code

288.598 Authority to pay rebates and make investments necessary for tax-exempt bond interest. Notwithstanding any other provision of law, a municipality issuing bonds, the interest on which is intended to be excludable from gross income under federal income tax laws, may:

(1) Covenant for the benefit of the owners of the bonds to pay rebates that are required under the federal income tax laws in order for interest on the bonds to be excludable from gross income. The rebates shall be considered an interest expense of the bonds, and may be paid from any source of funds which may be used to pay interest on the bonds, or from any source of funds which earns interest that is subject to rebate.

(2) Invest in United States Government securities or other legal investments which have a yield that is less than current market yield, in order to facilitate compliance with federal laws which govern whether interest on the bonds is excludable from gross income under federal income tax laws. [1987 c.840 § 4]

Taxable Bonds

288.600 Issuance of bonds with taxable interest authorized. A public body may issue bonds, notes or other evidences of indebtedness the interest on which is taxable for federal income tax purposes to the holders of the bonds, notes or other evidences of indebtedness. Notwithstanding the grant of such authority to a public body, a public body shall consent to such taxation expressly in writing at the time at which the bonds, notes or other evidences of indebtedness are issued. The express written consent shall be made a part of the transcript of the proceedings of the issuance. [1987 c.340 § 8]

THE FOLLOWING SECTIONS 98 TO 101 OF CHAPTER 902 OF OREGON LAWS 1991 ARE ADDED TO AND MADE A PART OF ORS CHAPTER 288.

SECTION 98. As used in sections 98 to 101 of this 1991 Act:

(1) "Actual cost" has the meaning given the term under section 210, chapter 459, Oregon Laws 1991 (Enrolled House Bill 2550).

(2) "Capital construction" has the meaning given the term under section 210, chapter 459, Oregon Laws 1991 (Enrolled House Bill 2550).

(3) "Costs" when used with capital construction or improvements has the same meaning as "actual costs" as defined under section 210, chapter 459, Oregon Laws 1991 (Enrolled House Bill 2550).

(4) "Credit agreement" means a note, letter of credit, line of credit or similar agreement in which a financial institution agrees to loan funds to the governmental unit, and the governmental unit pledges its full faith and credit and agrees to pay the amounts loaned over time, with or without interest.

(5) "General obligation bond" means a bond including a credit agreement, which is a full faith and credit obligation, and which is payable from taxes which may be levied without limitation by section 11, Article XI of the Oregon Constitution, and without limitation by section 11b, Article XI of the Oregon Constitution.

(6) "Governmental Unit" means a unit of local government within the State of Oregon, including, but not limited to, cities, counties, school districts, special districts, public corporations and intergovernmental corporations organized under the authority of ORS 190.010.

(7) "Improvement" has the meaning given "capital improvements" under section 210, chapter 459, Oregon Laws 1991 (Enrolled House Bill 2550).

(8) "Limited tax bond" means a bond or other obligation which is a full faith and credit obligation, and which is payable from any taxes which the issuer may levy within the limitations of section 11 or 11b, Article XI of the Oregon Constitution.

(9) "Structure" has the meaning given the term under section 210, chapter 459, Oregon Laws 1991 (Enrolled House Bill 2550).

SECTION 99. (1) If authorized by law other than sections 98 to 101 of this 1991 Act and in the manner provided by law, a governmental unit may issue general obligation bonds when:

(a) The question of issuing the specific bonds has been approved by the electors of the issuing governmental unit or the bonds replace outstanding general obligation bonds pursuant to section 100 of this 1991 Act; and

(b) The general obligation bonded indebtedness will be incurred for capital construction or improvements.

(2) If authorized by law other than sections 98 to 101 of this 1991 Act and in the manner provided by law, a governmental unit may issue limited tax bonds when authorized by a resolution or ordinance of its governing body.

(3) When issuing limited tax bonds, a governmental unit may:

(a) Establish the maturity schedule, interest rates, including variable or adjustable rates of interest, redemption provisions and other terms of the limited tax bonds. Notwithstanding this subsection, the governing body, in the ordinance or resolution authorizing the issuance of such bonds or notes, may delegate to any elected or appointed official or employee of the governmental unit the authority to determine the maturity dates, principal amounts, redemption provisions, interest rates or the method of determining a variable or adjustable interest rate, denominations and other terms and conditions of such bonds which are not appropriately determined at the time of enactment of the authorizing ordinance or resolution, which delegated authority shall be exercised subject to the applicable requirements of law and such limitations and criteria as may be set forth in such ordinance or resolution;

(b) Pledge as additional security for the limited tax bonds all or any portion of its revenues of whatever kind or nature and from whatever source derived which, under applicable law, are not specifically restricted to uses other than the payment of the amounts owing on such bonds, including but not limited to excise taxes, property taxes and other taxes of whatever kind or nature, revenues derived from any public utilities or other revenue producing enterprises operated by the governmental unit or agencies or instrumentalities thereof, user charges, business and license fees, fines and penalties, and make and enter into covenants with the owners of such bonds to pay all or any portion of the amounts owing thereon out of all or any portion of such revenues;

(c) Grant mortgages, trust deeds or security interests in property which is financed with the limited tax bonds and related property, in order to enhance the security of limited tax bonds or the obligations of the governmental unit under or with respect to any related credit enhancement device. For purposes of this subsection, "related property" shall include any tangible personal or real property comprising a part of the system such as a water, sewer or other public utility system of which the financed property is a part, and shall also include any tangible personal or real property which is functionally related to or used in connection with the property financed;

(d) Obtain a credit enhancement device providing additional security for the payment of all or any portion of the amounts owing under such bonds or for the purpose of funding, in lieu of cash, all or any portion of any debt service reserve established with respect to such bonds. The governmental unit may pledge as security for its obligations arising under any revenues pledged to the payment of the related bonds, and such obligations shall in any event be payable from the same sources from which such bonds are payable. For purposes of this subsection, "credit enhancement device" means a letter of credit, line of credit, municipal bond insurance policy, standby purchase agreement or other device or facility used to enhance the creditworthiness or marketability of municipal bonds;

(e) Enter into agreements with bond trustees and deposit funds with trustees for the benefit of bond owners and the providers of credit enhancement devices for bonds;

(f) Enter into covenants for the benefit of bond owners or the providers of credit enhancement devices for bonds which are intended to improve the security of bond owners or providers of credit enhancement devices, or to maintain the tax exempt status of interest payable on bonds or credit enhancement agreements. Such covenants may include, but are not limited to, covenants regarding the issuance of additional bonds and other financial obligations, the imposition and collection of any revenues which secure the bonds, and the priority of payment of bonds and other financial obligations of the governmental unit; and

(g) Establish a debt service reserve for the purpose of paying when due all amounts owing on such bonds, which debt service may be funded out of the proceeds derived from the issuance and sale of such bonds or from such other sources as the governing body of the governmental unit may determine.

(4) A security interest granted by a governmental unit under authority of sections 98 to 101 of this 1991 Act shall attach and be perfected on the date the security interest is granted or the date the governmental unit takes possession of the property in which the security interest is granted, whichever is later. A security interest authorized by sections 98 to 101 of this 1991 Act shall have priority over all other liens and claims.

SECTION 100. (1) If authorized by law other than sections 98 to 101 of this 1991 Act and in the manner provided by law, a governmental unit may issue general obligation bonds to refund outstanding general obligation bonds or to reimburse the governmental unit for costs of capital construction or improvements, if:

(a) The refunding general obligation bonds have been approved by the electors, and the obligations which are refunded, or the first obligations in the series, if the refunding general obligation bonds are part of a series of refundings, or the costs which are to be reimbursed, were incurred for capital construction or improvements; or

(b) The refunding general obligation bonds replace an issue of outstanding general obligations bonds which were incurred for capital construction or improvements.

(2) For the purposes of this section, refunding general obligation bonds shall be deemed to replace outstanding general obligation bonds if:

(a) The refunded general obligation bonds are paid or lawfully deemed paid upon issuance of the refunding general obligation bonds; and

(b) The net proceeds of the refunding bonds shall be used to pay only the debt service on the refunded bonds and the costs of issuance of the refunding bonds; and

(c) The bond refunding satisfies at least one of the following tests:

(A) The principal amount of the refunding general obligation bonds does not exceed the outstanding principal amount of the refunded general obligation bonds, plus the amount of any authorized but unissued general obligation bonds of the governmental unit; or

(B) The total amount of principal and interest payable on the refunding general obligation bonds does not exceed the total amount of principal and interest payable on the refunding bonds as of the date of issuance of the refunding general obligation bonds; or

(C) The present value of the debt service on the refunding general obligation bonds does not exceed the present value of the debt service on the refunded general obligation bonds, with the present values calculated at the refunding bond yield.

(3) For purposes of section 11b(3)(b), Article XI of the Oregon Constitution:

(a) If refunding general obligation bonds replace an issue of general obligation bonds, the refunding general obligation bonds shall be deemed to have been issued on the date of issuance of the bonds which are replaced, or the first issue of general obligation bonds, if the refunding general obligation bonds are part of a series of refundings; and

(b) If the bonds which are replaced were approved by the electors, the refunding general obligation bonds shall be deemed to have been specifically approved by the vote which approved the bonds which are replaced, or the first issue, in a series of refundings.

(4) Notwithstanding ORS 221.200, 225.085, 287.056 or any other law to the contrary, a ballot measure authorizing issuance of refunding general obligation bonds need not state the principal amount of

refunding general obligation bonds, so long as the refunding bonds comply with subsection (2) of this section. A ballot measure may authorize issuance of general obligation bonds to refund a specific series of outstanding general obligation bonds, or may authorize issuance of general obligation bonds to refund all or any portion of the outstanding bonds or future general obligation bonds, or any combination thereof.

(5) Refunding general obligation bonds shall be deemed paid within the meaning of subsection (2) of this section if:

(a) The refunded general obligation bonds are deemed paid or defeased under the provisions of the documents authorizing issuance of the refunded general obligation bonds; or

(b) The governmental unit complies with ORS 288.677.

SECTION 101.

(1)Subject to any applicable limitations imposed by the Constitution or laws of the State of Oregon or the charter, ordinance or resolution of a governmental unit, a governmental unit or the State of Oregon, acting through the State Treasurer, may borrow money by entering into a credit agreement, or issuing notes, warrants, commercial paper or other obligations:

(a) In anticipation of taxes, grants or other revenues;

(b) To provide interim financing for capital assets to be undertaken by the governmental unit; or

(c) To refund obligations authorized under this section.

(2) To secure obligations authorized under this section, a governmental unit or the State Treasurer may:

(a) Pledge its anticipated taxes, grants, other revenues, the proceeds of any bonds or other permanent financing, or any combination thereof;

(b) Segregate any pledged funds in separate accounts which may be held by the governmental unit, the State Treasurer or third parties;

(c) Enter into contracts with third parties to obtain standby lines of credit or other financial commitments designated to provide additional security for obligations authorized by this section;

(d) Establish any reserves deemed necessary for the payment of the obligations; and

(e) Adopt resolutions and enter into agreements containing covenants and provisions for protection and security of the owners of obligations, which shall constitute enforceable contracts with such owners.

(3) Obligations authorized by this section which are issued in anticipation of taxes or other revenues, and any obligations authorized by this section which are issued to refund them, shall not be issued prior to the beginning of, and shall mature not later than, the end of the fiscal year in which the taxes or other revenues are expected to be received. Obligations issued in anticipation of taxes or other revenues shall not be issued in an amount greater than 80 percent of the amount budgeted to be received in the fiscal year in which the obligations are issued.

(4) Obligations authorized by this section which are issued in anticipation of a grant shall mature not later than one year after the date the grant is estimated to be received. Obligations issued to provide interim financing for capital assets shall mature not later than one year from the estimated completion or acquisition of the capital assets.

(5) Refunding obligations issued pursuant to paragraph (c) of subsection (1) of this section shall mature as soon as the issuer deems practicable and no later than 18 months after the refunding obligations are issued.

(6) Except as provided in this section, obligations authorized by this section may be in any form and

contain any terms, including provisions for redemption at the option of the owner and provisions for the varying of interest rates in accordance with any index, banker's loan rate or other standard.

(7) The governmental unit or the State Treasurer may contract with third parties to serve as issuing, paying and authenticating agents for any obligations authorized by this section.

(8) Obligations authorized by this section may be sold at public or private sale upon such terms as the governmental unit or the State Treasurer finds advantageous, with such disclosure as the governmental unit or State Treasurer deems appropriate. ORS 287.040 applies to obligations issued by governmental units under this section.

School Bonds

328.205 Power to contract bonded indebtedness; use of proceeds to pay expenses of issue.

(1) Common and union high school districts may contract a bonded indebtedness for any one or more of the following purposes in and for the district:

(a) To acquire, construct, reconstruct, improve, repair, equip or furnish a school building or school buildings or additions thereto;

(b) To acquire or to improve all property, real and personal, appurtenant thereto or connected therewith, including school busses;

(c) To fund or refund outstanding indebtedness; and

(d) To provide for the payment of the debt.

(2) However, when a common or union high school district is found under ORS 327.103 not to be a standard school or when a school district is operating a conditionally standard school under ORS 327.103(3), the school district may contract a bonded indebtedness only for the purposes enumerated in subsection (1) of this section that are approved by the Superintendent of Public Instruction.

(3) The school district may use the proceeds received from the sale of school district bonds to pay for any costs incurred by such school district in issuing and selling such bonds including, but not limited to, attorney fees and the cost of publishing notices of bond elections, printing such bonds and advertising such bonds for sale.

[Amended by 1957 c.658 s.1; 1959 c.447 s.1; 1965 c.100 s.49; 1971 c.513 s.61; 1989 c.128 § 1; 1989 c.491 § 13]

328.210 Bond elections. (1) The board of directors of a common or union high school district shall call an election on a date specified in ORS 255.345 for the purpose of submitting to the electors of the district a question of contracting bonded indebtedness under ORS 328.205 when:

(a) A majority of the board of directors decides to call such an election; or

(b) A petition requesting such an election is filed with the board of directors as provided in this section.

(2) The requirements for preparing, circulating and filing a petition under this section shall be as provided for an initiative petition in ORS 255.135 to 255.205. The petition shall specify the proposed amount of bonded indebtedness.

[Amended by 1957 c.658 s.2; 1965 c.100 s.50; 1971 c.513 s.62; 1973 c.57 s.1; 1973 c.796 s.26; 1979 c.424 s.1; 1983 c.83 s.46; 1983 c.350 s.138]

328.213 Issuance of negotiable interest-bearing warrants. (1) When authorized by a majority of the electors of the district, the board of a common or union high school district may contract a district debt for an amount which together with outstanding bonded indebtedness shall not exceed the bonding limit of the district as provided by ORS 328.245, for the purposes specified in ORS 328.205 and issue negotiable interest-bearing warrants of the district, evidencing such debt, and fix the time of payment of the warrants. Such warrants shall be considered a type of bond.

(2) The school district, not more often than once a year, may levy a tax on the taxable property of the district to pay the warrant interest or principal when due. The taxes shall be collected in the same manner as other school taxes. These warrants shall be sold, and the principal and interest provided for and paid when due in the manner provided by law for bonds issued under this chapter. [Formerly 328.285; 1971 c.513 § 63; 1983 c.83 § 47; 1991 c.67 § 81]

328.230 Issue of bonds upon favorable vote. If the electors of the district approve the contracting of bonded indebtedness, the board of directors, without further vote of the electors, shall issue negotiable coupon bonds of the district, at such time or times as the board directs.

[Amended by 1965 c.100 s.53; 1971 c.140 s.1; 1983 c.350 s.139]

328.235 Interest rate: signature: signed interest coupons. The bonds shall:

(1) Bear interest, not exceeding the rate established pursuant to ORS 288.515 to 288.600, payable semiannually.

(2) Be signed by the chairman of the district school board and attested by the district clerk or deputy clerk. Bonds of issues of $1 million or more may be executed with the facsimile signature of the chairman of the district school board and attested by the original signature of the district clerk or deputy clerk.

(3) Have annexed interest coupons bearing the original or facsimile signatures of the chairman of the district school board and district clerk or deputy clerk.

[Amended by 1971 c.140 s.2; 1977 c.311 s.1; 1981 c.94 s.27]

328.240 Place of payment. The principal and interest on district bonds are payable in lawful money of the United States of America at the office of the treasurer or fiscal officer of the county in which the major portion of the assessed valuation of the district is located at the time the bonds are issued. [Amended by 1965 c.100 s.54; 1983 c.347 s.22]

328.245 Limitation on bonded debt of districts generally. The aggregate amount of such district bonded indebtedness, including indebtedness authorized under ORS 328.213, shall not exceed the following percentages of real market value of all taxable property within the district, computed in accordance with ORS 308.207:

(1) For each grade from kindergarten to eighth for which the district operates schools, fifty-five one-hundredths of one percent (.0055) of the real market value.

(2) For each grade from the 9th to 12th for which the district operates schools, seventy-five one-hundredths of one percent (.0075) of the real market value.

[Amended by 1953 c.697 s.2; 1955 c.328 s.1; 1957 c.639 s.1; 1959 c.641 s.34; 1963 c.9 s.16; 1965 c.100 s.55; 1971 c.513 s.64; 1975 c.770 s.5a; 1991 c.459 § 384]

328.250 Limitation on bonded indebtedness of enlarged or reorganized school districts. In any school district created by merger or reorganization, the amount of bonded indebtedness and negotiable interest-bearing warrant indebtedness which may be incurred under ORS 328.245 shall be reduced by the amount of premerger, prereorganization, bonded indebtedness and negotiable interest-bearing warrant indebtedness for which any school district included in an enlarged or reorganized school district remains liable. [Amended by 1965 c.100 s.56]

328.255 Registration of bonds and negotiable interest-bearing warrants; delivery; disposition of proceeds; noncontestability. (1) The county treasurer or county fiscal officer shall register each school district bond, including refunding bonds, and negotiable interest-bearing warrants in a book kept for that purpose, noting the school district, amount, date, time and place of payment, rate of interest and such other facts as may be deemed proper. The county treasurer or fiscal officer shall cause the bonds or warrants to be delivered promptly to the purchasers thereof upon payment therefor, and if the place of delivery is outside the city in which the county treasurer or county fiscal officer's office is situated the cost of delivery of the bonds or warrants shall be paid by the issuing school district.

(2) The county treasurer or county fiscal officer or a custodial officer as defined in ORS 294.004 may hold the proceeds of the sale of the bonds or warrants for all school districts except county school districts subject to the order of the district school board to be used solely for the purpose for which the bonds or warrants were issued. If the treasurer or fiscal officer holds the proceeds initially, then the treasurer or fiscal officer, as soon as practicable, shall deliver the proceeds of the sale of the bonds and warrants to the person designated as custodian of the school district funds under ORS 328.441.

(3) When the bonds or warrants have been so executed, registered and delivered, their legality shall not be open to contest by the school district, or by any person for or on its behalf, for any reason whatever. [Amended by 1953 c.236 § 2; 1956 c.312 § 1; 1965 c.100 § 57; 1981 c.441 § 1]

328.260 Tax levy to pay interest and principal of bonds; use of funds derived from tax. (1) The district school board shall ascertain and levy annually, in addition to all other taxes, a direct ad valorem tax on all the taxable property in the school district, sufficient to pay the maturing interest and principal of all serial school district bonds promptly when and as such payments become due. The amount of the tax may be increased by an amount sufficient to retire any bonds that may be callable. The board shall in each year include the taxes in the school district budget for such year. The taxes shall in each year be certified, extended upon the tax rolls and collected by the same officers in the same manner and at the same time as the taxes for general county purposes.

(2) The funds derived from the tax levies may be retained by the county treasurer or county fiscal officer without being paid to the school district or may be held in trust by a banking institution as defined in ORS 706.005 or savings association or federal association as defined in ORS 722.004 designated by the district to hold the funds. The funds shall be kept in a separate fund to be known as and designated "School District No. _____ Bond Interest and Sinking Fund," which shall be irrevocably pledged to and used solely for the payment of the interest accruing on and the principal of the bonds when due, so long as any of the bonds or the coupons thereto appertaining remain outstanding and unpaid. The interest earnings of the fund shall be credited thereto and become a part thereof. For failure to retain and account for such funds, as provided in this section, the county treasurer, county fiscal officer or bank, savings bank, savings and loan association or trust company designated by the district shall be liable upon the official bond of the treasurer, other officer or institution, respectively.

(3) The fund shall not be diverted or used for any other purpose; but if a surplus remains after all interest and principal have been paid on all serial school district bonds then outstanding and unpaid, the surplus may be transferred to such other fund as the district school board may direct. [Amended by 1955 c.467 § 1; 1965 c.100 § 57a;1981 c.441 § 2; 1985 c.762 § 184]

328.265 School district bond tax to be levied by governing body upon failure of district school board. (1) The district school board of each school district having an outstanding bond issue shall file annually with the county treasurer or county fiscal officer a copy of the school district budget and tax levy.

(2) If the tax required by ORS 328.260 is not levied by the district school board, the county treasurer shall certify the amount necessary to the governing body of the county which shall then levy a tax on all taxable property in the appropriate school district sufficient to raise the required amount.

(3) The county assessor shall extend the tax so levied upon the county tax rolls for such school district. The tax collector shall collect the tax and pay the sums collected into the county treasury to the credit of the fund established by ORS 328.260. [Amended by 1965 c.100 § 58; 1973 c.305 § 14]

328.270 Payment of principal and interest; collection commission prohibited. (1) The county treasurer or county fiscal officer must cause to be paid out of any money in the hands of the county treasurer or county fiscal officer belonging to the school district, the interest on or principal of, as the case may be, any bond issued by the district promptly when and as the same becomes due at the place of payment designated in such coupons or bonds. All coupons or bonds so paid must be immediately reported to the district school board.

(2) No county treasurer, county fiscal officer or district school board shall pay to the purchaser of any bond issued by a school district, or to any agency representing such purchaser, any commission whatsoever for the collection of the interest on or principal of any such bond. The county treasurer or county fiscal officer shall not be required to remit to the purchaser of any bonds or coupons the amount necessary to redeem them until the day such bonds or coupons are due. [Amended by 1965 c.100 § 58a]

328.275 Redemption and payment of bonds. (1) Whenever the sinking fund mentioned in ORS 328.260 is sufficient to permit the redemption of any bond then subject to redemption at the option of the school district, the county treasurer or fiscal officer of the county having custody of such fund, when authorized by the district school board, shall call such bond for redemption in accordance with the terms of the bond. If any holder of such bond fails to present it at the time mentioned in the published notice of redemption, the interest thereon shall cease, and the treasurer shall thereafter pay only the amount of such bond and the interest accrued thereon up to the date of redemption.

(2) When any bonds are so redeemed, the county treasurer or county fiscal officer shall cause the same to be canceled and write across or stamp upon the face thereof "Redeemed" and the date of redemption, and shall deliver them to the district school board of such school district and take its receipt therefor.

(3) Each county treasurer or county fiscal officer and the sureties on the official bond of the county treasurer or fiscal officer as such, shall be liable to any school district in the county for any funds placed in the hands of such treasurer or county fiscal officer in connection with the school district's bond issues. [Amended by 1965 c.100 § 59; 1973 c.57 § 2; 1983 c.347 § 23]

328.280 Funding or refunding district indebtedness. (1) Whenever any school district has any outstanding negotiable interest-bearing warrant indebtedness or bonded indebtedness incurred in building or furnishing any schoolhouse, or for the purchase of any schoolhouse site, or in refunding bonded indebtedness, or in funding warrant indebtedness, which is due or subject at the option of the school district to be paid or redeemed, the school district, by and through its district school board, may:

(a) Issue and exchange, for any such indebtedness, its bonds bearing interest at a rate determined by the district school board; or

(b) Issue and sell such bonds and apply the proceeds of such sale in payment of the indebtedness for the payment of which the refunding bonds are proposed to be issued.

(2) Refunding bonds issued under subsection (1) of this section shall in all respects conform to, and be governed, as to their issue, by the provisions of ORS 287.008, 328.210 and 328.230 to 328.250.

(3) The refunding of indebtedness and issuing of bonds for such purpose shall not require an election, but may be done by resolution of the district school board at any legally called board meeting. The debt limitations imposed by law shall not affect the right of any school district to issue refunding bonds under authority of this section. The validity of any bonds so issued, or of the indebtedness thereby refunded, shall not thereafter be open to contest by the school district or by any person for any reason whatever. [Amended by 1965 c.100 § 60; 1965 c.315 § 1; 1981 c.94 § 28; 1983 c.347 § 24]

328.295 Sale of bonds and interest–bearing warrants. All school bonds, including funding and refunding bonds, notes and negotiable interest–bearing warrants which have been specifically authorized by vote of the electors, shall be advertised for sale and sold in the manner prescribed in ORS 287.014 to 287.026. [Amended by 1965 c.100 § 61; 1975 c.642 § 21]

328.565 Power to create indebtedness for current expenses and bond retirement. As provided by ORS 287.442, any district school board may contract indebtedness by the issuance of warrants or short–term promissory notes for the purpose of meeting current expenses, retiring outstanding bonds or warrants, or paying the interest thereon. [Formerly 332.085 and then 332.125; 1983 c.124 § 9; 1985 c.356 § 4]

SCHOOL BOARD MEETINGS

332.045 Board meetings. The district school board must provide for the time and place of its regular meetings, at any of which it may adjourn to the next succeeding regular meeting or to some specified time prior thereto. Regular and special meetings may be convened upon notice in the manner required by ORS 192.640 by order of the chairman, upon the request of three members of the board at least 24 hours before such meeting is to be held or by common consent of the board members. [Formerly 332.410; 1965 c.100 § 135; 1975 c.770 § 19]

332.055 Quorum; transaction of business. A majority of the members of the district school board shall constitute a quorum. A less number may meet and adjourn from time to time and compel the presence of absent members. The affirmative vote of the majority of members of the board is required to transact any business. [Formerly 332.420; 1965 c.100 § 136; 1973 § ; 1975 c.770 § 20]

332.057 Duties to be performed at meetings. Any duty imposed upon the district school board as a body must be performed at a regular or special meeting and must be made a matter of record. The consent to any particular measure obtained of individual members when the board is not in session is not an act of the board and is not binding upon the district. [Formerly 332.060 and then 332.100]

332.118 Election laws applicable; recall. (1) Unless specifically provided otherwise, ORS chapter 255 governs the following:

(a) The nomination and election of school directors and local school committee members.

(b) The conduct of all school district elections.

(2) ORS 249.865 to 249.877 govern the recall of school board members and local school committee members. [Formerly 331.002]

DISTRICT PROPERTY

332.155 Land; buildings; lease–purchase agreements; equipment

and services. A district school board:

(1) May furnish, equip, repair, lease, purchase and build schoolhouses, including high schools, junior high schools, vocational schools, technical schools, gymnasiums, houses for teachers and other employees, and like buildings; and locate, buy and lease lands for all school purposes. Leases authorized by this section include lease-purchase agreements whereunder the district may acquire ownership of the leased property at a nominal price. Such leases and lease-purchase agreements may be for a term of up to 30 years.

(2) May contract for the removal or containment of asbestos substances in school buildings and for repairs made necessary by such removal or containment. Contracts quthorized by this section may be for a term exceeding one year.

(3) May construct or cooperate in the construction of schools for training of student teachers on state or district owned lands, for any state institution of higher education in or contiguous to the district, and to expend district funds in so doing.

(4) May acquire personal property by a lease-purchase agreement or contract of purchase for a term exceeding one year. A lease-purchase agreement is one in which the rent payable by the district is expressly agreed to have been established to reflect the savings resulting from the exemption from taxation, and the district is entitled to ownership of the property at a nominal or other price which is stated or determinable by the terms of the agreement and was not intended to reflect the true value of the property.

(5) May lease, sell and convey all property of the district as may not in the judgment of the district school board be required for school purposes.

(6) May sell property of the district in transactions whereby the district has the right to lease, occupy or reacquire the property following the sale or have facilities constructed thereon or furnished to the specifications of the district. The construction or furnishing of such facilities shall be subject to ORS 279.011 to 279.063.

(7) Shall furnish their schools with supplies, equipment, apparatus and services essential to meeting the requirements of a standard school and may furnish such other supplies, equipment, apparatus and services as the board considers advisable.

(8) May construct, purchase or lease in cooperation with other school districts or furnish or cooperate in furnishing supplies and equipment for such facilities to be financed in the same manner as other school buildings and supplies are financed. [Formerly 332.380; 1965 c.100 § 143; 1969 c.311 § 2; 1969 c.434 § 1; 1975 c.358 § 1; 1981 c.212 § 1; 1983 c.740 § 163; 1989 c.138 § 2]

APPENDIX D

OREGON ADMINISTRATIVE RULES

Notice by Public Bodies of Intent to Issue New Bonds

OAR 170-61-000 (1) Definitions. For the purpose of this rule, the following definitions shall apply:

(a) "Commission" means the Municipal Debt Advisory Commission of the State of Oregon and includes the Debt Management Division of the Office of the State Treasurer.

(b) "Competitive Sale Date" means the date bonds are offered for sale to public bidders pursuant to a published Notice of Bond Sale.

(c) "Negotiated Sale Date" means the date a Public Body passes its final ordinance, resolution or other official act approving of the final rates on and terms of the Bonds.

(d) Terms not defined herein shall have the same meanings as used in Chapter 94, Oregon Laws 1981, Chapter 661, Oregon Laws 1981 and ORS Chapter 287.

(2) Notice. Any notice required by this rule may be given by telephone, telegraph or other means reasonably calculated to give notice, except that the notice for competitive bid sales must be in writing and in the form described in section (3) of this rule. Any notice directed to the Debt Management Division of the Office of the State Treasurer shall be deemed notice to the Commission. If mailed, notice shall be deemed made when deposited in the United States Mail, postage prepaid.

(3) Competitive Bid Sales. Upon the selection of a Competitive Sale Date the Public Body shall provide notice of the Competitive Sale Date to the Commission by providing a copy of the preliminary official statement to the Commission not less than 14 days preceding the date of the bond sale. If mailed, the preliminary official statement shall be deemed received when such document was deposited in the United States Mail, postage prepaid. In cases where Oregon statutes do not require preparation of a preliminary official statement, notice of the Competitive Sale Date must be made to the Commission not less than seven days before the Competitive Sale Date.

(4) Negotiated Sales. Upon the selection of a Negotiated Sale Date the Public Body shall provide notice of the Negotiated Sale Date to the Commission before the Negotiated Sale Date.

(5) Confirmation by Commission. After receipt of the notice required by this rule, the Commission shall provide written verification of receipt of such notice and a statement that:

(a) The notice does not comply with the requirements of this rule, including the specifics of such noncompliance. In such cases, the written notice shall be provided to both the Public Body and its bond counsel; or

(b) The notice complies with the requirements of this rule, which statement shall be conclusive evidence of such compliance. In such cases, the written notice shall be provided only to bond counsel.

(6) Postponement. In the event of a postponement of any sale for which notification has taken place, the Public Body shall provide notice of the new sale date in the manner provided above. For postponed Competitive Bid Sales which have provided prior notice, the Public Body is not required to provide a copy of the preliminary official statement to the Commission unless a new printing of such document has taken place. If a new preliminary official statement has been printed, a copy must be provided to the Commission as outlined in section (3) of this rule.

Terms and Conditions to be Satisfied by Registrars for

Municipal Bonds of Oregon Municipalities

OAR 170-61-010 (1) Definitions: For the purposes of this rule, the following definitions shall apply:

(a) "Commission" means the Municipal Debt Advisory Commission of the State of Oregon and includes the Debt Management Division of the office of the State Treasurer.

(b) "Municipality" means any political subdivision of or in the State of Oregon and any municipal, quasi-municipal and public corporations authorized by law to issue bonds.

(c) "Act" means the new provisions added to and amendments to Oregon Revised Statutes contained in A-Engrossed House Bill 2229 which was approved during the 1983 Regular Session of the Legislature and signed into law by the Governor on May 26, 1983.

(d) "Registrar" means one of the paying agents appointed by a municipality as provided in ORS 288.570(1) who shall be a financial institution authorized to do business in Oregon or the state's fiscal agent, or the municipality for which the bonds are being issued as provided in ORS 288.570(7). The municipality shall determine which of the paying agents appointed by the municipality as provided in ORS 288.570(2) shall act as paying agent/registrar for each outstanding bond issue and for each subsequent bond issue.

(e) "Bonds" means any municipal obligation subject to the registration requirement contained in the Tax Equity and Fiscal Responsibility Act of 1982.

(2) Standard Record Date: Any municipality or financial institution serving as registrar for municipal bonds issued by a municipality must adopt the standard 15-day record date. This provides that items must be received no later than 15 days prior to an interest payment date for that payment to be received by the new registered owner.

(a) For interest payable on the 1st of a month, the record date should be the 15th day of the preceding month (e.g. for interest payable on January 1, 1983, the record date should be December 15, 1982);

(b) For interest payable on the 15th day of a month, the record date should be the last business day of the preceding month (e.g. for interest payable on November 15, 1982, the record date should be October 29, 1982);

(c) For interest payable on a date other than the 1st or 15th day of a month, the record date should be the 15th calendar day before the interest payment date (e.g. for interest payable on March 31, 1983, the record date should be March 16, 1983).

(3) Three-Business-Day Turnaround on Routine Items: Any municipality or financial institution serving as registrar for municipal bonds issued by a municipality must effect the transfer of not less than 90% of routine items within three business days of receipt. A financial institution proposing to serve as registrar must demonstrate the ability to generate performance reports that indicate compliance or non-compliance with the three-business-day turnaround requirement during the reporting period. Such reports are to be prepared and provided to the municipality at least once each fiscal year. Whenever such reports show that the financial institution has failed to satisfy the three-business-day turnaround requirement cited above for any month of the reporting period, a copy of the report is to be provided to the Commission. The contract for registrar services between a financial institution and a municipality shall state the charge to the municipality for generation of such reports.

(4) Capacity To Handle Standard Bond Format: Any municipality or financial institution serving as registrar for municipal bonds issued by a municipality

must demonstrate the ability to process bonds that are the size of standard stock certificates.

(5) Uncashed Check Report: Any financial institution serving as registrar for bonds issued by a municipality must demonstrate the ability to generate a report showing the currently outstanding checks issued and not cashed along with the age of such checks. Such reports are to be generated and made available to the municipality upon request. Any municipality or financial institution serving as registrar for bonds issued by a municipality shall use its best efforts to forward all returned checks to the proper owner thereof. When negotiating a contract with a financial institution for paying agent/registrar services, a municipality should take into consideration the earnings on funds held by the financial institution pending presentation of outstanding checks. Such earnings should be credited to the municipality to off-set charges related to bond registration and payment.

(6) Bondholder Mailing List: Any municipality or financial institution serving as registrar for bonds issued by a municipality shall make available to the municipality upon request a list of the names and addresses of holders of the municipality's bonds. The contract for registrar services between a financial institution and a municipality shall state the charge to the municipality for generation of such reports. No registrar shall make available to anyone other than the municipality the names and addresses of the municipality's bondholders. Municipalities shall treat such information as confidential.

(7) Compliance With Administrative Rules: Any municipality serving as registrar for bonds issued by a municipality shall adopt a resolution or ordinance providing for compliance with this Administrative Rule. A copy of the resolution or ordinance is to be provided to the Commission. Any contract or agreement between a municipality and a financial institution to provide for registrar services shall include the requirements of this Administrative Rule.

(8) Application of Rule: The terms and conditions of this Administrative Rule do not apply to contracts and agreements for registrar services executed prior to its effective date. This Administrative Rule does not apply to contracts and agreements for registrar services entered into under authority provided by statutes other than the Act or by home rule charter. A municipality may request Commission approval of the appointment of a registrar under special conditions approved by the State Treasurer.

Administrative Rule
Requirement for Official Statement and Notice of Call

OAR 170-61-020 (1) Definitions. For the purpose of this rule, the following definitions shall apply:

(a) "Commission" means the Municipal Debt Advisory Commission of the State of Oregon and includes the Debt Management Division Oregon State Treasury.

(b) "Closing" means the date the bonds are delivered to the initial bond purchaser and the Issuer receives the funds.

(c) "Bonds" and "bonded obligations" include revenue and general obligation bonds, special assessment bonds, tax increment bonds, limited tax obligations, notes and certificates of participation.

(d) "Called bonds" are bonds which the issuer has the option or requirement to redeem before the stated maturity date. The call date is the date the bond may be redeemed.

(e) "Official Statement" means the document published by the Issuer which generally discloses material information on the issue of municipal securities including the purposes of the issue, how the securities will be repaid, and the financial, economic and social characteristics of the issuing government. A final Official Statement is printed only after the final terms of the bonds are available.

(f) Terms not defined herein shall have the same meanings as used in ORS Chapter 287.

(2) Issuance of Bonds. Any municipal government issuing bonds for which an Official Statement is prepared shall provide a final copy of such Official Statement no more than five business days after the Closing to the MDAC at:

Debt Management Division
Oregon State Treasury
159 State Capitol
Salem, Oregon 97310

(a) If the final Official Statement is mailed, receipt shall be deemed on the date shown by the post office cancellation mark stamped upon the envelope containing it, or similar mark used by other delivery services.

(b) In cases where a final Official Statement is not prepared, the following as a minimum shall be provided to the Commission on all bond issues, not more than five business days after the closing date:

(A) Name or title of issue;
(B) The Issuer;
(C) Issue date;
(D) Purpose of issue;
(E) Principal maturity dates and amounts;
(F) Date of optional redemption, if any;

(G) Redemption or call premium, if any;
(H) Mandatory or estimated sinking fund schedules, if any.

(3) Notice of Bond Call. Any municipal government unit redeeming bonds prior to their stated maturity shall notify the MDAC of its intention to call bonds no later than the date the first bond is called. The notice to the MDAC shall include as a minimum the:

(a) Name or title of issue;
(b) The Issuer;
(c) Issue date;
(d) Original issue amount;
(e) Purpose of issue;
(f) Maturity dates, call dates and principal amounts of the bonds called;
(g) Amounts outstanding upon completion of the call;
(h) Coupon interest rate; and
(i) Call premium, if any.

(4) Exceptions. The Commission, at its discretion, may waive any or all provisions of this rule.

Procedure for Submission, Review and Approval of an Advance Refunding Plan

OAR 170-62-000 (1) An Advance Refunding Plan shall consist of:

(a) A written request for approval for an advance refunding bond sale. The request shall include the following information:

(A) Date of application;

(B) Issuer, contact person with phone number, bond counsel, financial advisor, underwriter and Trustee.

(b) A copy of the resolution or ordinance of the governing body authorizing submission of the plan to the State Treasurer;

(c) A statement of the purpose(s) of the advance refunding sale. Permissible purposes are:

(A) A Present value savings. To effect a savings, discounted to present value;

(B) Favorable reorganization of debt. Bonds issued for a favorable reorganization of debt require submission of a study conducted by the financial advisor elaborating the benefits to the issuer;

(C) Fiscal distress. To pay or discharge all or any part of obligations or series or issue of bonds, including any interest thereon, in arrears or about to become due and for which sufficient funds are not available.

(d) A description of the bonds to be refunded, including:

(A) Date and premium, if any, when each is first callable;

(B) Semi-annual debt service to final maturity for each issue;

(C) The present value of each semi-annual payment;

(D) Par amount issued and proposed amount to be refunded;

(E) Issue or dated date.

(e) A description of the proposed advance refunding issue including the:

(A) Call date and premium, if any;

(B) Semi-annual debt service to final maturity;

(C) Present value of each semi-annual payment;

(D) Par Amount;

(E) Proposed issue or dated date;

(F) Proposed closing date;

(G) True interest rate (TIC) used to calculate debt service.

(f) A description of the escrow account, including the type of securities to be used and the redemption date of the account;

(g) A Present Value Saving Table similar to Table 1:

(A) Subtracting the proposed refunding bonds debt service payments (B) from the refunded bonds debt service payments (A) provides the projected minimal debt service savings (C). Multiplying the projected nominal debt savings by the present value factor (D) for its period equals the present value debt service savings (E) for that period. Summing the period present value savings gives the total present value savings;

(B) Bond issuance expenses not paid from the advance refunding proceeds or the escrow account shall be subtracted from the present value debt savings total.

(C) Cash, other than bond proceeds, added to the advance refunding proceeds to complete the escrow account shall be subtracted from the total present value debt service savings;

(D) The TIC used in calculating the present value factor is the TIC of the refunding bonds. TIC is that rate determined by doubling the semi-annual interest rate, compounded semi-annually necessary to discount the refunding bonds debt service payments to the dated date of the refunding bonds and to the price received by the issuer of the refunding bonds, excluding interest accrued to the settlement date.

(h) Itemization of the administrative costs, expenses or fees. The State Treasurer shall determine if the fees are comparable to similar offerings and if excessive, approval may be withheld;

(i) A copy of the contract between the issuer and the financial advisor;

(j) A Preliminary or deemed near final Official Statement;

(k) A final Official Statement;

(l) A final Present Value Savings Table as described in subsection (g) of this section;

(m) A copy of the issuer's arbitrage certificate;

(n) A copy of bond counsel's approving legal opinion;

(o) A copy of the escrow verification report demonstrating the ability of the escrow account to meet all future debt service and related costs relative to the refunded bonds;

(p) A copy of the underwriting agreement;

(q) A written statement from the Financial Advisory to the issuer recommending that the refunding be completed as described in section (2) of this rule.

(2) Financial Advisor Required. The issuer shall employ an independent financial advisor whose sole function shall be to advocate the interest of and advise the issuer in the refinancing transaction. Prior to closing, the financial advisor, shall recommend in writing the desirability or undesirability of doing an advance refunding. ORS 288.320 requires that the issuer assume a reasonable, *non-contingent* fee obligation to the advisor for services rendered:

(a) The contract between issuer and financial advisor shall include language similar to the following: **"The financial advisor, in consideration of the fees contracted for herein, agrees to exercise its best efforts on the issuer's behalf and will not be a purchaser of the refunding bonds at a negotiated sale."**

(b) The contract shall also reflect the obligations of the parties for the contingency of a sale not consummated as planned.

(3) Significant Savings Tests. Equating or surpassing any one of the three following tests indicates that the present value savings purpose, as required by subsection (1)(c) of this rule, has been met;

(a) Present value savings of $5 million or more; or

(b) A savings ratio of three percent or more; or

(c) An annual "tax rate impact" of $.15 per $1,000 or more:

(A) Savings Ratio is the Net Total Present Value Savings divided by the Par value of the refunding bonds, expressed as a percent;

(B) Tax Rate Impact. This test is intended to reflect the potential favorable impact on the taxpayer of small jurisdictions. It is not intended as a precise calculation of the real tax rate impact, but rather using readily available figures, will approximate that tax rate impact. It is calculated as follows:

(i) Annual savings estimate =

$$\frac{\text{Net Present Value Savings}}{\text{Number of Maturities of Advance Refunding Issue}}$$

(ii) Tax Rate Impact =

$$\frac{\text{Annual Savings Estimate}}{\text{Issuer Assessed Valuation/1000}}$$

(4) State Treasurer Approval Procedure;

(a) Preliminary Approval. Items in subsections (a) through (j) of this rule are initial components of an advance refunding plan and must be received prior to preliminary approval. If approved the Oregon State Treasury will notify the issuer of its preliminary approval and state its intention to issue a final approval conditional upon:

(A) Receipt and approval of items in subsections (1)(k) through (q) of this rule;

(B) The TIC of the sale and the Significant Savings are within the parameters set forth in paragraph (1)(e)(G) and section (3) of this rule respectively, if the refunding is being done to provide a present value savings.

(b) If the issuer does not receive preliminary approval, or denial, within 30 business days of receipt of items listed in subsections (1)(a) through (j) of this rule at the Oregon State Treasury, preliminary approval shall be considered to have been given and the issuer may proceed. However, the issuer may not proceed without preliminary approval prior to 30 business days from receipt of items listed in subsections (1)(a) through (j) of this rule at the Oregon State Treasury. Plans should be submitted sufficiently in advance to allow 30 days review;

(c) Final Approval. Items in subsections (1)(a) through (q) of this rule are the final components of an advance refunding plan and must be received prior to final approval.

(5) Administrative Expenses:

(a) To reimburse the Oregon State Treasury for administrative expenses incurred in reviewing proposals, a fee will be charged as authorized in ORS 288.620(3);

(b) When necessary to review complex proposals, the State Treasurer may consult recognized experts at the expense of the issuer.

(6) Ongoing Evaluation. The State Treasurer intends to evaluate the statewide impact of advance refunding through a benchmarking process. Current bond interest rates are compiled into an **"Oregon Bond Index"**, similar to the **Bond Buyer** national index. Adverse trends associated with advance refunding bond sales may result in a review and revision of the savings tests, thereby diminishing any undesirable impact upon the higher priority "new money" bond issues.

(7) Waiver of Certain Provisions. The State Treasurer may waive certain provisions of this rule to accommodate unusual circumstances.

(8) If the State Treasurer finds that the advance refunding plan is not substantial compliance with ORS 288.605 to 288.695 and this Administrative Rule, the plan shall not be approved. Written notice that the plan does not comply, and the reasons for this finding shall be sent to the issuer and its bond counsel.

(9) Submit Advance Refunding Plans to: Oregon State Treasury, Debt Management Division, 159 State Capitol, Salem, Oregon 97310.

Procedure for Determination of Waiver of Advance Refunding Requirements

OAR 170-62-100 (1) Requests to the State Treasurer for a hearing in the matter of a waiver of the conditions and requirements of ORS 288.635 shall be submitted at least 30 business days prior to any proposed bond sale date.

(2) The "Request to the State Treasurer for Waiver of ORS 288.635" shall indicate:

(a) The name and address of the municipality for which the Request is made;

(b) The name, address and telephone number of the individual submitting the Request;

(c) A signed copy of the resolution/ordinance approved by the governing body, authorizing submission of a Waiver Request and Advance Refunding Plan to the State Treasurer;

(d) A brief narrative statement of the reason(s) a waiver is requested;

(e) A narrative statement of the purpose(s) of the advance refunding;

(f) Calculation of the present value savings ratio of the issue assuming compliance with ORS 288.635. Calculation of the present value savings ratio of the issue assuming a waiver of ORS 288.635 is granted.

(3) After receipt of all of the components of the waiver request anticipated by section (2) hereof and in the manner described by section (1) of this rule, the State Treasurer (or designee) shall hold a hearing to consider any waiver request(s) as quickly as is practicable per ORS 288.637(2). Waiver requests may be granted based upon a municipality's showing, to the satisfaction of the State Treasurer, that the request, if granted, would significantly further the policies stated in ORS 288.610 and 288.615; and:

(a) A present value savings ratio of 3% or greater; or

(b) Benefits would also be deemed as exceeding costs upon a declaration of financial exigency as determined by the issuing entity's governing body and evidenced to the State Treasurer through Debt Service Cash Flow Projections made by qualified financial analysts; *or*

(c) Removal of a significant onerous covenant.

(4) An Advance Refunding Plan shall be submitted in compliance with ORS 288.605 to 288.690 and the State Treasurer's guidelines and rules.

(5) The State Treasurer's costs in conducting the Waiver Hearing shall be borne by the municipalities requesting said waiver.

(6) The State Treasurer shall issue a written decision on the Waiver Request within seven (7) business days following the Waiver Hearing.

TABLE 1

(OAR 170–62–000)

PRESENT VALUE SAVINGS TABLE

Period or Year	(A) Semi-Annual Outstanding Requirement Refunded	(B) Proposed Advance Refunding Requirement	(C) Projected Nominal Savings	(D) Present Value Factor (PVF)	(E) Present Value of Semi-Annual Debt Service Saving (PVS)
1					________
.					________
.					________
n					________
Total PVS*					$________

Formula:(A)–(B)=(C)=(E) Sum(El.En)=Total PVS

Less:

Cash Added $________

Expenses not paid from refunding issue proceeds $________

Equals: Total Net Projected/Actual Present Value Savings: $________

State Superintendent's Approval of Bonded Debt for Nonstandard and Conditionally Standard School Districts

OAR 581-23-060 State Superintendent's Approval of Bonded Debt for Nonstandard and Conditionally Standard School Districts.

The State Superintendent of Public Instruction shall approve additional bonded indebtedness for a nonstandard or conditionally standard school district as described in ORS 328.205 when: (1) The purpose of the revenues is listed under ORS 328.280(1) and is included in the district's plan to correct the deficiencies causing the nonstandard or conditionally standard status; or

(2) The district demonstrates that in contracting for bonded indebtedness it will not impair or delay its efforts in becoming a standard district.

Oregon Department of Eduction
700 Pringle Parkway SE
Salem, OR 97310-0290

Office of School Improvement
School Standardization

Date: ____________________

APPLICATION FOR APPROVAL OF PROPOSED CONTRACT OF BONDED INDEBTEDNESS

School District ____
Name Number County/ESD

Rated as: _____ Standard _____ Conditionally Standard _____ Non-Standard
From __________ to _________ Date ______________

requests the approval of the Superintendent of Public Instruction for a proposed bonded indebtedness.

The following information will provide evidence of need for a contract of indebtedness:

1. Bonding Limit $_______________
2. Bonds Outstanding _______________
3. Proposed Bond Issue _______________
4. *Purposes for which funds to be provided in this issue will be used:

____

____

____

____

*This information is required only for "Conditionally Standard" or "Non-Standard" districts.

____
Signature, Chairman of School Board

APPROVED: _____ YES _____ NO

DATE _______________

____
Signature, Superintendent of Public Instruction

Form 581-5215 (Revised 10/90)
Replaces forms 581-5215, 5216 and 5217

INDEX

Advance refunding . . . 10, 41–46, 71
Arbitrage . . . 7, 8, 11–13, 24, 37–39, 48, 49
Assessed values . . . 18
Ballot . . . viii, 15, 17, 19–21, 23, 60
Ballot title . . . viii, 15, 17, 19, 20, 23
Bank qualified . . . 12, 50
BANs . . . 14, 19, 22
Basic school support . . . 35
Bid opening . . . 4, 5, 7, 8, 21, 22
Bond counsel . viii, x, xii, 2–11, 15, 19–21, 23, 30, 31, 36, 41, 44, 46, 47, 49–51, 55, 70, 71
Bond election . . . 6, 7, 15, 17, 20
Bond insurance . . . viii, x, xii, 1, 5, 8, 9, 11, 59, 67, 68
Bond issuance costs . . . viii, 6
Bond Purchase Agreement . . . 4, 5, 8, 9, 53
Bond register . . . 10, 50
Bonded indebtedness . . . 1, 4, 5, 15, 19, 20, 24, 57, 58, 62
Book–entry . . . 7, 50
Business manager . . . 3–6, 15, 30, 35, 36
Called . . . 15, 17, 19, 27, 29, 32, 42, 44, 46, 53
Campaign . . . 20
Capital appreciation bonds . . . 17
Capital construction . . . viii, 3, 11, 14, 15, 23, 27, 57–59
Capital improvement fund . . . ix, xiii
Capital improvements . . . viii, 1, 58, 59
Capital projects fund . . . 69
Capitalized interest . . . 12
Carry–over . . . ix, xiii
Cash flow . . . x, 14, 18, 35–39, 42
Cash flow deficit . . . x, 14, 36–39
Challenge . . . 4, 14, 62
Citizen's Advisory Committee . . . 20
Classification . . . 4, 62, 63
Closing . . . 5–11, 38, 45, 49–51
Competitive sale . . . 8, 9, 21, 53, 54
Consolidation . . . 4
Constraints . . . 7, 21
COPs . . . xii, xiii, 2, 14, 28–33, 41, 42, 44, 48, 49, 53
Credit enhancement . . . 59
Current coupon . . . 13, 16, 17, 28, 29
Current refunding . . . 42–45
CUSIP . . . 50
Debt limit . . . 17, 24
Debt Management Division . . . viii, x, xii, 10, 22, 43, 71
Debt service . . . . ix, xi, xiii, 5, 6, 11, 13, 14, 17, 18, 20, 23, 27–33, 35, 36, 41–46, 48–50, 57, 59, 60, 65, 69–71
Debt service fund . . . ix, 36, 48, 49, 69, 70
Defeasance . . . 42
Deficits . . . x, 35
Depository Trust Company . . . 7, 50
Disclosure . . . viii, x, xii, 5, 6, 53–55, 61, 70, 71
DTC . . . 7, 10, 50
Escrow agent . . . 14, 27, 28, 31, 42, 43

Escrow agreement . . . xii, 31
Escrow verification . . . 43, 44
Exempt bonded indebtedness . . . 58, 62
Expenditures . . . x, 1, 23, 30, 33, 36, 37, 39, 69, 70
Federal tax . . . 1, 2, 7, 12, 18, 24, 29, 33, 36, 37, 39, 44, 47, 51
Financial advisor . . . viii, x, xii, 3-13, 16, 18, 21, 30, 31, 36, 43, 55, 67, 68, 71
Financing team . . . 2-9, 15, 17, 22, 25, 27, 30, 35, 38, 43, 46, 55, 67
Fitch . . . 65
Form 8038-G . . . 50
General fund . . . 1, 2, 23, 27-29, 31-33, 35, 46
General Obligation bonds . viii, 1, 2, 8, 14-17, 21-23, 25, 27, 28, 30, 41, 42, 44, 45, 55, 59, 60
GFOA . . . 54, 55
Good faith check . . . 9, 21
Interest component . . . 17, 27, 29
Interest cost . . . 7, 12, 21
Investment bank . . . 9
Judicial review . . . 62, 63
Lease payment account . . . xiii
Lease-purchase agreement . . . xii, xiii, 2, 27, 28, 30-32
Legal opinion . . . 7, 8
Levy spike . . . 18
Limited tax bonds . . . 59
Local Budget Law . . . 1, 6, 30, 69, 70
Long first coupon . . . 16, 28
Management Contract . . . 47
Marketing . . . 9, 17, 30
Maturity schedule . . . 15
Measure 5 . . . viii, 1, 4, 14, 20, 23, 27, 31, 41, 45, 57-60, 62, 63
Moody's . . . 65
MSRB . . . 53, 54
Multiple issues . . . 12, 13
Negotiated sale . . . 5, 8, 9, 21, 30, 38, 53, 54, 61
Net interest cost . . . 21
NIC . . . 21
Notice of bond sale . . . 4, 7, 9, 16, 21, 22
Official Statement . . . 4-9, 11, 19, 53, 54
Oregon Tax Court . . . 62, 63
Outstanding debt . . . 5, 6, 14, 16, 18, 24, 41, 43-45, 69
Paying agent . . . 3, 5, 10, 43, 50
Prepayment . . . x, 18, 30
Present value . . . 41, 46, 60
Pricing . . . 5, 9
Principal component . . . 27
Printing . . . viii, x, xii, 6
Private activity bond . . . 47
Project . . . 5, 11-14, 16, 20, 22-24, 28, 43, 48, 69
Project fund . . . 11-13
Property tax . . . 18, 23, 27, 57-60, 65, 70
Public meeting laws . . . 6
Publication . . . 1, 6, 7, 69
Rating agency . . . 65-67
Rating symbols . . . 65
Ratings . . . 1, 8, 29, 65-67
Rebate . . . 8, 11-13, 24, 37-39, 48, 49
Redemption . . . 10, 16, 18, 42, 43, 49, 53, 61, 69

Refunding escrow 44
Registrar 3, 5, 7, 9–11, 43, 50
Registration viii, x, xii, 8, 10, 37, 50, 53
Reimbursement 50
Reserve fund 48
Resolution viii, x, xii, 3, 4, 7, 10, 14–16, 19, 21, 22, 30, 31, 35, 36, 43, 59, 62, 63, 70
Restructuring 41
Rule 10b–5 53
School attorney viii, x, xii, 3, 4, 6, 7, 15, 55, 71
School Board 2, 3, 6, 7, 9, 14, 15, 19–22, 35, 43, 50, 69, 70
SEC 53–55
Securities law 1, 6, 53
Security interest 28, 31, 33, 42, 59
Short first coupon 16, 28
Short–term borrowing 60
Sizing x, xii, 11, 16, 24, 36, 38
Special counsel 31
Standard & Poor's 65
State Treasurer viii, x, xii, 4, 8, 10, 22, 41, 42, 45, 61, 71
Structuring 3–5, 10, 12, 15–17, 28, 36, 43, 44, 70
Successful bidder 4, 21
Superintendent 3, 4, 6, 19, 30, 35
Tax and Revenue Anticipation Notes 1, 35, 65
Tax Anticipation Notes 35
Tax levy ix, 17, 18, 27, 35, 69, 70
Term bonds 14, 16, 22
Transcript 7, 9, 15, 20
Underwriter x, 2–13, 16–18, 21, 22, 30, 31, 33, 36, 43, 48, 53–55, 67, 68
Underwriting discount viii, x, xii
Unification 25
Unlimited tax 1
Voters 1, 2, 12, 14, 15, 20, 22, 24, 27, 32, 57, 58, 69
Yield restriction 48
Zero coupon 16, 17, 28, 29